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the MANAGEMENT REVIEW

FEBRUARY, 1950

AMONG THE FEATURES

"Mature Economy" Doctrine Debunked Again

How Executives Keep from Growing Old

Simplification of Office Methods: A Survey

Pointers on Pension Bargaining

Conditioning Employees for Incentives

Improving Supervisory Selection

"Democracy's Last Ticket"

Wage Incentives Can *Improve* Quality!

Business-Sponsored Teaching Aids

What Management Expects of Packaging

Centralized vs. Decentralized Accounting

The Problem of Old-Age Security

- PERSONNEL
- PRODUCTION
- OFFICE MANAGEMENT
- MARKETING
- FINANCE
- INSURANCE
- PACKAGING
- BOOKS OF THE MONTH

AMERICAN MANAGEMENT ASSOCIATION

M. J. Dooher, *Editor;* Alice Smith, *Research Editor;* Vivienne Marquis, *Associate Editor;* Evelyn Stenson, *Digest Editor;* Helen F. Hough, *Assistant Editor*

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the MANAGEMENT REVIEW

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FEBRUARY, 1950

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GENERAL MANAGEMENT

The "Mature Economy" Doctrine Is Debunked Again

ONE of the favorite doctrines of New Deal and Fair Deal government spenders has been the theory that the U. S. is a "mature" economy. For years, the sturdiest prop of this doctrine has been the prediction, generally accepted without question, that U. S. population is leveling off, and that in not too many years the number of U. S. inhabitants will reach its peak.

Recently, with little fanfare, the Bureau of the Census made hash of both of these ideas. In its latest provisional estimate, as of last October 1, the Bureau put U. S. population a shade below 150 million, a mark unquestionably exceeded by now. In effect, it also admitted what surprisingly few economic observers to date have realized: This country's population is growing so fast that all previous forecasts, including one made early in 1949, are obsolete and misleading.

One authoritative prediction, made by the National Resources Board in 1937, indicated a 1950 population of 140 million. Brought up to date five years later, it continued to underestimate the true figure by more than five million people. Only two and a half years ago, an official Census Bureau projection pointed to a 1950 population of 145.5 million. Its most recent forecast, made early in 1949, also will fall short by a million or so.

Calculations of the demographic soothsayers have been confounded by a population spurt little short of amazing. In the decade ended July 1, 1949, the population of the continental U. S. increased by 18.3 million, or 14 per cent. This is more than twice the absolute growth in the 30's, and twice the rate of growth in those years.

While it is possible that the advance may level off in the 50's, it still is going strong. In the first nine months of 1949, according to the National Office of Vital Statistics, births exceeded the total in the corresponding period of 1948—2.6 million—by a slight margin.

This development, of course, has not caught all experts off-base. Commenting on the emerging trends in U. S. population in an address before the American and Western Farm Economics Associations, Joseph S. Davis, member of the Food Research Institute of Stanford University states: "Ten or 12 years ago, if anyone had dared to predict for 1950 the figures that now seem sure to be reached, with or without the assumption of our involvement in a second World War, he would almost universally have been regarded as irresponsible, if not insane."

In view of the dismal record of unfulfilled prophecy, Professor Davis naturally cautioned his listeners against drawing hasty conclusions. Yet, the new population figures have implications of enormous importance to industry and investors, as well as to the government.

The country actually is younger and more vigorous than the experts would have you believe. Median age of the population, which rose sharply in the 30s, has risen very little in the 40's, and may have fallen since 1945. The proportion of elderly citizens may be lower in 1950 than it was years before.

This is cheerful news to a lot of people besides manufacturers of baby foods, carriages, toys and diapers. Construction already is getting a noticeable lift from the unexpectedly heavy demand for new school facilities. A bigger population almost automatically will mean bigger mar-

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kets in the future for all kinds of commodities—houses, cars, furniture, appliances, other consumer durables and non-durables. These economic gains will more than offset possible losses to producers of canes, toupees, and hearing aids.

The trend is of special importance to farmers. A good many pessimistic forecasts of future demand for farm products have been based on estimates that U. S. population would be stationery, or declining, in a measurable number of years. Continuation of current trends will mean much greater consumption of milk, meat and other agricultural commodities than anticipated.

Nor will public utilities be negelected. Tied by their franchises to specific territories, lacking the mobility of industrial companies, public utilities in recent years have been seriously concerned over population statistics. In 1947, the Consolidated Edison Company of New York analyzed the population growth of large cities and their metropolitan districts. One of its major conclusions: "As long as the U. S. continues to grow, it appears that these great metropolitan districts also will continue to increase. It may be quite possible that central cities, some of which have ceased to grow and have even lost population, will experience a renaissance." Latest Census Bureau figures seem to bear out this position.

Political implications of the mushrooming of U. S. population are even more impressive. One of the pet economic nostrums of our day is the idea that without regard to the cost structure, we must continue to bolster consumer purchasing power. And the Census Bureau, motivated by its own erroneous forecasts, has given the idea a fillip of its own. In a report issued two years ago, it said:

> Although industry-wide bargaining has some objectional features, it increases the extent to which business leaders who appreciate the need for raising purchasing power by appropriate wage increases can work toward that goal without weakening the competitive position of their own companies in the industry.
>
> The more industries in which this can be done, the greater the likelihood that the purchasing power of the main body of consumers can be raised sufficiently to offset the decline in the additions to consumer purchasing power resulting from the expected diminution of population increase.

What becomes of this idea in view of current population statistics?

More devastating is the blow dealt the flimsy concept of economic maturity. This theory, which flowered in the late 30's as a justification for expanded government pump-priming, holds that the U. S. economy gradually is running down. Investment opportunities supposedly are becoming increasingly scarce, and over-saving supposedly is rampant.

Advocates of this idea pointed to the passing of the American frontier, the failure of giant new industries to arise (this was some years before television or atomic energy), and, most important of all, the slackening in the rate of population growth.

The most recent Census Bureau figures will receive the publicity they deserve when the decennial census spotlights them. It would be dangerous, of course, to predict too much from the new population trend. Somewhere in the 50's there could be a decided falling off in population growth as a result of the smaller number of births in the 30's. Then might be the time when private investment will need a boost from the government. But certainly at present the population figures offer no justification for the Administration's easy acceptance of deficits.

From a longer-range point of view, the figures are a heartening evidence, not of maturity but of dynamic growth. In effect, the Census Bureau has posted a notice reading: "No economic pallbearers need apply."

Barron's, December 5, 1949, p. 9:2.

● THE TELEVISION INDUSTRY "seems to be over the hump of its growth," according to an analysis by the Conference Board. About 6,500 sets were produced in 1946; in 1947, 200,000 were produced; slightly under one million were made in 1948; and output for 1949 is estimated to have reached more than 2.6 million. In the final quarter of 1949 "it turned out sets at a faster rate than it expects to average in 1950."

Where Is Organized Labor Going?

IF I said, "Organized labor is going to Communism," you might scoff at me because apparently our most potent union leaders are now making and winning a fight against their Communist rivals. But if I said, "Organized labor is going to National Socialism," a majority of you might agree, particularly because you can see that in Europe and America the alternative to Communism which is everywhere espoused by organized labor, and by its supporting phalanx of moist-eyed liberals, is apparently National Socialism.

Now I am not one of those benighted alarmists who believe that *any* degree of federal aid to health, education and housing, or *any* form of federal aid and regulation of business and labor, necessarily means that we are embracing Socialism.

But also I am not one of those befuddled idealists who believe you can swallow more and more economic and political morphine without becoming an addict. We do not need to accept Socialism just because we do accept a few social responsibilities. We do not need to nationalize all public utilities just because we approve of a national postal service. We do not need to invite political domination of private industry just because we approve of some political regulations to remedy abuses of private industrial power.

Yet many people think, like children, that if a little sugar or vinegar is good, then a lot of it must be better. And so we find masses of wage earners, and leaders who sincerely want to serve them, advocating more and more taxes for the purpose of supporting more and more political projects, spending more and more of the earnings of all workers, and leaving them less and less control of their own income and property. This simply means less and less control of their own lives and more and more control by government . . . and at the turn of the road, there is Socialism . . . and at the end, Communism.

What, then, is the way to save American labor from using its vast power to destroy its own rich heritage in the American way of life?

In the first place, it is necessary to fight the prevailing and utterly wrong doctrine of intellectuals who call themselves liberals and who argue night and day that the only way to stop Communism is to outpromise and to outdo Communism by converting our Federal Union into a national welfare state. We must preserve the right of the individual to spend most of his earnings and the freedom of the individual to earn his living in fair competition with others, whether he is a business man, a farmer, or a wage earner—or else we cannot keep human beings free from public or private tyrannies.

But even if intellectual power can be organized which *could* save the weak and the ignorant from the corruption of bad thinking and vicious propaganda, how can we spread the mass education which is necessary to combat the false appeals that are now being so effectively made to American labor?

The founders of religions that have ruled the minds of millions for centuries appealed to the deep human yearning for immortality—they pointed the way to spiritual salvation. Today new teachers are appealing to the universal human desire for material comfort and security *in this life*. They are assuming to point the way to *economic* salvation. Their new religion may lack spiritual grace; but do not think that it lacks emotional appeal!

A direct counterappeal should therefore be made to convince people, bewildered by the complexity of an industrial civilization, that mankind *has already found the way* to economic salvation and that the false prophets of National Socialism or world-wide Communism are trying to lead mankind downhill and away from the guideposts of liberty, back into the swamps and jungles of poverty and ignorance and tyranny.

This counterappeal would point out that the indispensable leaders of mankind on the road to economic salvation have been the enterprising, enlightened business men who had the intelligence to employ and to endow scientific research so that they might understand and use the material resources of the world to advance the welfare of human beings.

How unimportant is the fact that ambitions for power and wealth have often induced men to exploit and oppress their fellow men! These evil deeds should not be condoned, but they are of small consequence when compared with the vast measure of good that has come from bringing to uncounted millions a happier, more fruitful existence than could have been even imagined a few hundred years ago.

By all means let us seek to prevent and to destroy the evil uses of wealth and of the power of wealth. But, in the name of human progress, let us not destroy the ideas, the incentives, and the organizations for the production and control of wealth which have brought material comfort and happiness to millions whose ancestors knew only hardship and misery. And, in the name of human progress, let us not destroy the ideas, the incentives, and the organizations which have brought the light of liberty to millions whose ancestors lived in the darkness of economic and political slavery.

There is, however, little to be accomplished by persons, such as you and I, in making speeches or writing articles for our own consumption. What is needed, I believe, is a definite, *open,* nationwide propaganda effort in support of the freedom of productive labor from any government or other mass control, except government prevention of individual or organized crime. Of course, I include in the freedom of productive labor the freedom of the farmer and of the business man as well as the freedom of the individual wage earner. They all have an equal stake in reasserting the foundation principle of civil liberties under our Constitution. This is the right of the individual *against* the government; his right to be free from government restraint in his freedom of speech and thought; his freedom of association; his freedom of religion; and his right to the utmost freedom of action that is possible without undue injury to others or restriction of their freedom.

This organized propaganda should not be merely defensive. That is the gravest weakness in our efforts to combat Communism today. This propaganda should undertake to demonstrate to the man and woman of limited education that the *alleged facts* underlying Communistic propaganda are not true. This means the tying in together of easily understood statistical facts with emotional appeals to fair play and honesty and self-interest.

It would be foolish for one person to attempt to make a blueprint of a propaganda campaign which should be the product of many experienced minds; and I do not claim to be an expert in this field (nor am I looking for, or willing to do, the job). But, to clarify my thought, I will suggest a few things which should or should not be done.

In the first place, the principal target of this counterappeal should be the organized workers. The sponsors of the appeal, however, should be the business men who are candidly seeking to establish a willing cooperation with their employees in preserving and promoting an economic system of private enterprise. These sponsors should therefore announce a platform favoring the self-organization of labor and collective bargaining between the self-chosen representatives of labor and management, as the way to establish and maintain the terms of their cooperation. They should oppose the use of secrecy or deception or intimidation by either party in dealing with the other, but assert the freedom of either party to combat misunderstanding or misrepresentation by giving full publicity to the facts necessary to an honest weighing of their separate and joint interests. Since facts as well as opinions are often in dispute, they should insist upon a tolerant attitude in disagreements, so long as they are not based on misrepresentation.

This platform should also include a declaration of principles upon which an economic system of private enterprise must rest. For example, one principle is that a fair compensation for employees and a fair compensation for property used must be paid and recovered in the selling price if a private enterprise is to succeed and obtain and retain the employees and the property necessary for efficient production. Another principle is that private property under private management is the essential *foundation*, and free, fair competition must be the final *regulator* of any free economic system; and that political freedom and self-government cannot be maintained under any politically controlled economic system.

I should like to offer many concrete suggestions for the nation-wide propaganda which I believe should be organized. For example, I should like to offer a practical plan for a national newspaper of low cost, small size, and continuing interest to the masses of wage earners who would find enjoyment and enlightenment in reading it.

I had something to do for many years with the creation and development of the weekly newspaper *Labor*, published by the railway unions; so I know that it is possible to publish a four-page, ad-less weekly newspaper, which can be self-supporting and gain and retain an enormous circulation, largely by mass subscriptions at $1 a year. Details concerning reading matter, cartoons, comics, and so forth, in a comparable paper must be left to experts.

All I can do at the moment is to point out that American business can command the brains, the money, and the energy to do the job of completely destroying the influence of National Socialism or International Communism upon the minds of the American people. But the job is not being done today, and it will not be done tomorrow unless it is undertaken as the most important task of self-preservation facing American private enterprise.

You ask me, "Where is organized labor going?"—and I say that it is going to destroy itself and the American way of life if it does not find better guidance than it is getting today from its self-absorbed, shortsighted leaders and the fuzzy-minded intellectuals who call themselves "liberals" and "friends of labor." Need I point to what happened to labor under Hitler and Mussolini? Need I point to what is happening to labor in England and observe that if it had not received aid from capitalistic America, the Labor Government of Great Britain would not have survived?

The idea that, with liberal idealism, we can develop a national welfare state that will not be a police state is a false notion which is corrupting the American mind.

It is imperative today that men faithful to American institutions make an organized effort to recapture the American mind, to revive its reasoning power so that it will again distinguish between the nobility of charity that extends a helping hand to the unfortunate and the sentimentality that accepts the weak and incompetent as legal parasites, licensed to live upon and eventually to destroy the strong. Only through such mass education may we again achieve a government of the people who are fit and able to govern themselves.

Some years ago I hoped that there would be found a halfway house between Wall Street and Moscow, because then I feared a choice between a dictatorship of business managers and a dictatorship of the proletariat. But now it is plain that we have only a choice of evils in Fascism or Communism, or a so-called democratic compromise in a continuing struggle between Fascist capital and Communistic labor. Our real choice lies between a state-controlled economy and a genuinely free economy, between political tyranny and political freedom. There is no halfway house—except a poor shelter where one may pause on the way to his permanent abode in a land of masters and servants or in a land of free men.

By Donald R. Richberg, *Harvard Business Review,* July 1949, p. 405:22.

How Executives Keep from Growing Old

MANY executives are working themselves to death because they don't know how to slow down—they can't even enjoy a long weekend or a brief vacation. The result is industry's high toll of executive manpower, which in most cases cannot easily be replaced—to say nothing of the incalculable personal losses arising needlessly each year from executive overwork.

General Motors Corporation realized this at the end of the last war after several of its top men toppled over from overwork. The company now has a complete health program designed to bring any executive health problems to the surface and then eliminate them before they have done severe damage.

Many other large companies are setting up programs with the same thoughts in mind. International Harvester Company has a plan whereby annual check-ups are given the management group. Dr. Eugene L. Walsh, Harvester's assistant supervisor of medical services, is behind the program, and he is familiar with some of the problems faced by companies both large and small. In many small businesses, for example, one man is the whole show. He owns the company, runs it, and holds himself completely responsible. There is no one to tell him to slow down, no one to warn him that he should take a long vacation and forget it all for a while. If he does not voluntarily submit to periodic check-ups and follow the advice of his physician, he is running a good chance of fast becoming the "late indispensable president" of his company.

Big companies have their problems too. Many executives should slow down, but it is often difficult to get them to do so. Some of them should take a shorter work week or should take an extended leave, but naturally they don't want to do anything that might mean less money. Every executive should take his regular vacation, as any doctor will say. But even this is often a problem. Many top men consider themselves indispensable, and rather than delegate their work to another person, they will skip vacations entirely. Then there are other executives who take vacations, but their particular phase of the business comes to a standstill while they are gone. When they return, their desks are stacked with 2 weeks' work, and the men must pitch in and work that much harder to catch up.

Even in cases where the executive *does* take an annual vacation, he may not benefit fully from it because it has been deferred too long. Dr. Walsh points out that it is often more beneficial for an executive to take two fairly short vacations rather than one extended vacation, because he can stand 6 months of pressure better than he can 11 months.

Executives who won't delegate work to others are some of the biggest problems that confront company physicians who try to improve health of top management men. These men load themselves with details when they should be turning the work over to others. Instead of training good assistants, many executives take work home with them night after night, and when this happens it is usually time for the man to start slowing down gradually before he is stopped all at once.

Finding some interesting hobby to divert one's thoughts from business worries after working hours is highly recommended. But it is important to choose the right kind of hobby. Too many executives consider golf an ideal one, but Dr. Walsh calls it the most hazardous hobby a business man can get mixed up in—unless he takes it in moderation. The average executive burns up his energy in the office all week and then on Sunday rushes out to the golf course to race through 18 or more holes. But this man needs something relaxing, something that will build him up instead of tear him down. If an executive is able to play golf two or three

times a week, and can leisurely play about 9 holes each time, it's a sport of a different color.

There is another group of executives who dash over to an athletic club once a week to "keep in the pink." They play a strenuous game of volleyball, basketball, or some other sport, and completely wear themselves out. All the rest of the week they sit in the office, never once stretching any of the muscles used so vigorously in the workout. It would be better to cut out the one exercise period entirely, unless the executive could take two or three workouts a week, or at least get some other exercise during the week.

Dr. Walsh was overseas during World War II and saw several men injured when they participated in infrequent workouts. The same hazards are ahead for business men who race through 27 holes of golf during 1 day or who take part in a strenuous game of basketball or volleyball once a week or less.

Because of the many things that executives should and shouldn't do if they want to prolong their days in the front offices, Dr. Walsh listed a few helpful hints.

First of all, a business man should do everything regularly and in moderation. These two points cover a multitude of things, but they can add years to a man's life. For example, an executive should regulate his day's work. He should plan his schedule so that he can work at a regular pace and avoid unnecessary periods of pressure. If he is able to do this, he can leave work at the office when he goes home.

Business men shouldn't talk shop over the luncheon table. If at all possible, they should discuss lighter subjects, relax, and enjoy the meal.

No one should overeat, of course.

Hobbies should be developed. In many cases, a man's family is his hobby—which is a good thing, too. An executive should grow up with his children, which will keep his thoughts from centering too much on business and at the same time will make for better relations in the home. Happy home life means a happier, more efficient executive.

When tensions mount in the office, an executive might take a short walk and let things simmer down. That's better than staying in the office and "stewing" the rest of the day.

As many details of business as possible should be delegated to trained assistants, leaving an executive's mind free to concentrate on bigger things.

Every man should take regular vacations. For some it is better to take two short ones instead of one long one, and some executives find that long week ends are helpful.

Executives who exercise to keep fit should do so regularly and moderately. The vigorous once-a-week workouts should be eliminated entirely.

Comfortable offices might ease the tensions in many businesses. One man redecorated his office at the advice of his wife, cut his working day from 8 hours to 5 hours, and felt much better as a result.

With these suggestions from Dr. Walsh, senior executives have a better chance of being senior executives longer, and junior executives have more of a chance of becoming senior.

American Business, September, 1949, p. 14:5.

● PLANT TOURS BY TELEVISION is something new in the way of community relations. Monsanto Chemical Co. (St. Louis, Mo.) tested the idea out recently with success. Visitors sat in air cooled auditorium while workers did their stints before the T-V cameras.

—LAWRENCE STESSIN in *Mill & Factory* 9/49

Business Men Must Relax

TWO news items that appeared recently in the daily papers deserve more than passing attention.

One reported the findings of the Benjamin Franklin Clinic of Pennsylvania Hospital in Philadelphia after checking the physical condition of nearly one thousand business men. The other item told about the launching of a nation-wide campaign called "Relax, U. S. A." Its purpose: "To save and lengthen lives."

The Clinic's medical director, Dr. Leonard W. Parkhurst, thinks many business men need the advice of psychiatrists "to convince them that they must not be slaves to their jobs." He says they fail to delegate authority, that they take their troubles to the luncheon table, carry them home in their brief cases at night, have no day-in, day-out hobbies, but try to shake off their bottled-up jitters in a rugged physical workout once a week.

"Relax, U. S. A." is said to have been conceived by a group of people who are alarmed at the number of business men dying off at the peak of their careers. The group proposes to promote the idea of "taking time out every so often to recharge the batteries."

It is little wonder that the health of business men has become a matter of concern. The many perplexing problems that have sprung from postwar adjustments and the social changes that have taken place are enough to harass even the most impassive individual. It is not easy to fight off the anxieties of an unstable, baffling [illegible] and an atomic age.

These two news items are important because they point up [illegible] individual and collective attention. There is now more rea[illegible] men who carry heavy responsibilities should adhere to a prog[illegible] for relaxation and an occasional "change of scenery." How[illegible] perspective and keep their minds in proper focus, except to [illegible]itation purposes the close application that they must give to their [illegible]

—*The Pick-Up* ([illegible] el Service) 1/50

Toward Better Organization

SAID the late Harry Arthur Hopf, great management authority who formulated the organizational credo presented below: "It is my conviction that if progress is to be made in organization, executives must subscribe wholeheartedly to the truth of these tenets and always act upon their implications."

1. To adhere to the substance of organization, rather than to worship the form in which it is cast.
2. To view organization as a means to an end, rather than as an end in itself.
3. To recognize the values inherent in improvisation, rather than to rely exclusively upon the virtues attaching to organization.
4. To insure liberation of human energies, rather than their suppression or regimentation.
5. To respect the authority of knowledge, rather than the authority of position.
6. To strive for the maintenance of loyalty on the part of executives to their subordinates, rather than stress the essentiality of the reverse process.
7. To develop well-rounded and intellectually well-balanced executives, rather than one-sided and narrow specialists.
8. To imbue executives with a spirit of tolerance toward one another, rather than permit the existence of conditions productive of intolerance.
9. To inculcate in the minds of executives the wisdom of rendering themselves dispensable, rather than of cherishing the illusion that they are indispensable.
10. To sacrifice almost any other value rather than cause injury to the foundations upon which inspiring leadership rests.

—*Modern Industry* 7/15/49

● A MATTER OF VIEWPOINT: Have you heard the one about the two bricklayers? Asked what they were doing, one replied, "Layin' brick." Said the other, "I'm building a cathedral."

—*Business Week*

Supporting Social Welfare Agencies—A Solution to the Fund-Raising Problem

MANY times in the course of a year the average company is approached by various community welfare and charitable organizations for cooperation in sponsoring fund-raising appeals to employees through the house organ, bulletin boards, special rallies, in-plant collections, etc. Rather than turn a cold shoulder to any group whose work is purposeful and necessary, many companies do what they can to encourage employee contributions to a good cause, despite the extra work and inconvenience—and the knowledge that appeals may have been worn thin by a similar campaign the month before.

Several years ago the Community Chest program was originated to consolidate all drives in the community into one fund—a very practical idea from the standpoint of management and employees alike, who were endlessly bombarded by requests for charitable contributions. However, the efficiency of this idea has been diminished by the refusal of some agencies to participate in the Community Chest Fund and the fact that others have sprung up since then.

This condition has almost resulted again in the very thing the Community Chest Fund was designed to eliminate—repeated campaigns which throw added expense and trouble on the shoulders of management and employees. To cite just a few, there are annual campaigns being made nationally for Community Funds, March of Dimes, Christmas Seals, Easter Seals, American Cancer Society, American Heart Association and the American Red Cross.

Some progressive managements are trying to overcome this problem by a practical method of heartily backing one drive a year to cover *all* necessary contributions.

For example, the Ohio Rubber Company, Willoughby, Ohio, worked out a plan, with union participation, known as "Consolidated Service Fund of The Ohio Rubber Company Employees." Its slogan is: "I gave once for all."

The plan consists of: (1) each employee's pledging one hour's wage per month for 8 months to finance the fund; (2) proportionate distribution to the various agencies by a control board composed of three union members and three management members with the public relations director as coordinator; (3) an arrangement whereby each employee receives a signed membership card, a window card and all pins, stickers, seals, etc., which are normally distributed by the agencies in their drives.

The plan has a number of advantages: (1) it eliminates all other drives at work, double contributions and excessive administrative costs; (2) spreads the contribution of each employee in proportion to income; and (3) insures payment of pledges through payroll deductions.

Crouse-Hinds Company, Syracuse, N.Y., has also worked out its own solution to the contribution problem with a plan similar to the one just described—the essential difference being in the method of contribution.

The plan provides that every employee in the organization give five hours of his or her time on a given Saturday morning each year. Time and one-half rates are paid by the company for the work produced that morning. All the money, less withholding tax, is then paid into the "Good Neighbor Fund" of Crouse-Hinds employees.

A committee of men and women from the factory, foundry and office have the responsibility for dispensing the fund to the campaigns for Community Chest, Red Cross, Cancer Fund, March of Dimes and a Christmas toy fund.

This plan has many advantages. First

and most important, there is no out-of-pocket money paid out—the men and women give only their time. Second, everyone is on an equal basis—five hours' time is donated by each person. Third, no solicitations for these campaigns are made in the plant.

From all reports the "I Gave Once For All" idea is sound and practical from the standpoint of management, employees, and the social agencies who look to them for a measure of well-earned support.

By ROBERT D. BRETH. *Quotes Ending,* September, 1949.

OFFICE MANAGEMENT

Methods Simplification in the Office—A Survey of Trends and Practices

METHODS simplification is the sure road to cost reduction in the modern office. How well traveled is this road? What has been done and what is being done? These are the questions which the Research Division of the National Office Management Association recently undertook to answer by conducting a national survey of trends and practices.* The results, which are summarized here, are based upon replies from 727 companies in the United States having small and large office forces (ranging from those with one to 25 office employees to those with over 1,000), and engaged in almost all major types of manufacturing and non-manufacturing businesses.

How is the office methods program organized? In 70 per cent of the companies the office methods program is an informal one; the remaining 30 per cent have detailed and planned programs. The program is centralized by a majority of the companies with planned or formal programs, but by only 45 per cent with informal programs. It may be concluded that centralization and organization are closely tied together.

The direction of the program is under the leadership of the office manager in companies with informal programs. When the program is formalized there is a strong tendency to shift the load to other shoulders. However, 44 per cent of the formal programs are headed up by the office manager. The methods group heads 39 per cent of the formal programs. The larger the company, the more likely it is to use a specialized methods group.

Carrying out the program—getting the job done—is the office manager's responsibility in 72 per cent of the companies with informal programs and in 50 per cent of the companies with formal programs. The program is carried out by a methods group in 42 per cent of the companies with formal programs. In companies where this is a combined responsibility, the office manager and office supervisor carry out the program.

Final authority to approve major office methods changes rests with top executives in 60 per cent of the companies with informal programs and in 54 per cent of those with formal programs.

Direction is synonymous with authority

* Reported in *Office Methods Problems, NOMA Survey Summary No. 8*, by Hubert Glenn Jones. Available from the Public Relations Division, National Office Management Association, 132 W. Chelten Ave., Philadelphia 44, Pa. 26 pages. $2.00.

in about one-fifth of the companies, insofar as the office manager is concerned, but final authority is widely scattered in the reporting companies. Under an informal program, a company officer has the say in three out of five companies, with the secretary-treasurer slightly favored. Under formal programs, the figure is down to 53 per cent with the comptroller giving approval in 21 per cent and a vice president in 16 per cent of the cases.

After installation there must be an evaluation—yet one out of every five companies with informal programs did not say who evaluated their programs. Those that do evaluate them give this responsibility to the office manager in 62 per cent of the companies, with some combining this duty as that of the office manager and supervisor. Forty-two per cent of the companies with formal programs give this responsibility to the office manager, 21 per cent to the methods groups, but about one-half of these companies combine this responsibility and where they do, the office manager and office supervisor figure most predominantly.

What steps or procedures are used? Where predetermined steps are used in solving office methods problems, they are applied company-wide by those with formal programs but to a specific "sore spot" by those with informal programs. Only 63 per cent of the informal group applied predetermined steps.

The approach to problem-solving by all companies reporting on this aspect of their programs (only 63 per cent of the informal group indicated their approach) is to analyze in detail the existing method rather than define and write the problem first.

Methods are developed systematically by eliminating unnecessary work and simplifying details more than by combining details and rearranging details. These rules for developing good office methods have gained wide acceptance in principle, as indicated by 56 per cent of the companies.

In giving necessary instructions on how to use predetermined steps, there is a tendency for executives in companies with formal programs to be too much concerned with such details. In companies with informal programs, the office manager in 69 per cent of the instances gives the necessary instructions. In a third of the companies this is a combined responsibility of the office manager and office supervisor.

The need for written instructions on how to use predetermined steps in solving office methods problems is recognized by 81 per cent of the companies with formal programs; by only 53 per cent with informal programs.

New methods are most frequently initiated by the office manager (informal, 76 per cent; formal, 63 per cent). Yet the action is a joint responsibility in 52 per cent of the companies with formal programs and 36 per cent with informal programs. This probably indicates that the office manager's function is delegated by a superior.

What cost-cutting aids are used? Suggestion systems as aids in cutting costs are used in 70 per cent of the companies with formal programs, 50 per cent of those with informal programs. Suggestions are encouraged by cash awards in only half the companies, with "other" types of incentives being used more than merit awards by those with informal programs.

The two best sources of information for cutting office costs are conferences and contracts with other companies, as indicated by all companies.

What are the results of the programs? All companies indicate that the most important result of office methods improvement is the reduction of direct office labor cost. This benefit is cited slightly more by those companies with formal programs than those with informal. Improved customer service and increasing effectiveness of records are next in importance.

As a result of cost reduction programs, standards are in use in 74 per cent of all companies. However, the companies with formal programs have standards in 90 per cent of the cases whereas 67 per cent of those with informal programs have standards.

Where standards have been established, they relate chiefly to procedures followed in regard to office equipment (in companies with formal programs) and office supplies in companies with informal programs. However, most companies have standards in more than one field.

Most of the standards have been put into writing, although some are unwritten. Some companies have both written and unwritten standards.

Written procedures are used in 90 per cent of the companies with formal programs, but in only 66 per cent of those with informal programs. Most of these procedures, when written, are put into standard practice manuals.

Conclusions. From this summary certain conclusions emerge:

1. Every office is not "20 years behind the factory." While only 30 per cent of the companies participating in this survey had detailed and planned programs for reducing office costs, many companies whose programs are classified as "informal" have organized for action with a step-by-step application of simplification principles.

2. There is a greater need for planned programs, continued action, and follow-up. A hit-the-sore-spot type of program is not the answer.

3. The larger the office, the more formal and better organized the program.

4. Offices that are production units in themselves and have no dependency on the factory, are making the greatest progress in the establishment of detailed and planned cost reduction programs.

5. The emergence of methods groups is still very limited. Only 20 per cent of all reporting companies said they used this type of specialist organization, although 40 per cent of those with formal programs and who answered this question indicated that they had such groups.

6. The office manager's added responsibilities for direction and carrying out of informal programs are somewhat lightened in the case of companies with formal setups. In five out of six instances the office manager does have the right to approve a methods change. The important job of evaluation is very often his, yet frequently he lacks the authority to make his findings take hold.

7. The general office and the accounting office probably can be considered closest to the traditional idea of what an "office" is. Comparison, therefore, with the other "office" groups is very favorable from an organized methods activity standpoint. But the high percentage of informal programs suggest the persistence of hit-and-miss informality in planning and detailing operations.

8. The use of predetermined steps in solving office methods problems is lacking in many companies with informal programs.

9. There seems to be some resistance to the practice of defining and writing down the problem causing a methods change.

10. The programs need better selling, upward and downward.

11. The fact that most companies consider a reduction in direct office labor cost the most important result of office methods improvement indicates a primary interest in reducing the office workforce whereas many other results would be equally beneficial.

12. There is still room for action on standards—as shown by the fact that 43 per cent of the companies with informal programs have unwritten standards.

What's New in Office Equipment

DEDICATED to "the emancipiation of the white collar worker," the 41st National Business Show recently staged its annual exposition of the latest developments in office equipment, geared to free workers from tedium and fatigue and help channel their energies into more productive, wage-increasing work.

This is an important objective—as equipment manufacturers are quick to point out—in view of the fact that clerks and kindred workers outnumber factory workers by almost two to one. But their wares—some of which will be described here—may help bring about wholesale changes.

Improved "Push-Button" Secretary. Punched cards can now be used to answer the busy executive's correspondence. A large equipment manufacturer which

last year exhibited its "push-button" secretary has improved on the original with the Carlson Selector, introduced to the public for the first time at the Show.

Heretofore the operator filled in the salutation of a form letter, flipped a switch and the automatic typing machine did the rest. But all resulting letters were identical.

Now, through use of a light card about $1\frac{7}{8}$" x $7\frac{3}{4}$", the executive can select tailor-made replies from 60 form paragraphs listed on the card. He simply circles the numbers of the paragraphs he wants and sends the card to the operator. She, in turn, perforates the circled numbers with a small hand punch (the executive can do the same if he wishes). The card is then inserted into the Carlson Selector, which is about the size of a cigarette carton, and the typewriter keys begin to fly as if operated by phantom hands. The finished letters cannot be detected in any way as processed.

This automatic typing machine is operated on a player-piano principle, with typewriter keys moved by perforations in a roll. From five to ten typewriters can be operated at once on one relay, and it is estimated that one girl, using only one-third of her time, can thus produce 150 to 200 letters per day.

Improved Mechanical Collators. Another machine designed to reduce the time and fatigue which have been so great a part of paper-gathering operations, is the "Vacuumatic Collator". This device, which gathers pages into sets automatically, uses a vacuum pick-up arrangement to remove individual sheets from piles and transfer them, in their correct sequence, to a moving belt containing the finished sets. Complete accuracy of the sets is insured by electronic controls which break the vacuum when one of the delivering arms fails to pick up a sheet of paper and return the incomplete set of papers to their original file for another pick-up.

The "Vacuumatic" is designed to solve large collating problems. Its rated speed is 18,000 sheets per hour for a ten-page unit. A similar volume of collating would take the average hand collator about six hours to complete.

The manufacturer has also redesigned his entire line of mechanical collators, and, in addition, has just introduced a new electrically operated stapling machine. This is designed to eliminate hand stapling in large, continuous stapling operations. At the touch of the papers, the stapling head automatically descends and stitches the sheaf of pages together.

Typewriter Ribbon Simplifies Corrections. Another new development is a typewriter ribbon which makes it possible to turn out perfectly typed letters and forms of all kinds. Secret behind the new ribbon, called "Del-e-Tape," is that typing errors may be made to vanish completely with the use of a liquid eradicator.

When a change is necessary, a word or a whole sentence can be made to disappear by painting away the words with just a touch of Del-e-Tape Eradicator. It takes only a second or two and leaves the paper without any smudge or trace of the error.

Del-e-Tape ribbons cost no more than ordinary good typewriter ribbons. They are available in black, black and red, and blue for all standard and electric typewriters.

Multi-Purpose Calculator. Simplicity is a keynote of the new Ultra-Matic Calculator, which can perform addition, subtraction, division and three kinds of multiplication—all in six minutes. The machine automatically responds with the answer when a button is pushed.

A new automatic alignment device makes it possible to perform division in an easier manner, and insures correct placement of the decimal point in the answer. Several new features have been built into the multiplier section, including a new repeat mechanism, which permits the use of a constant factor in either multiplicand or multiplier. The machine can be used as a "duplex" calculator performing a series of individual extensions, and giving the grand total of these at the completion of the problem. Amounts may be added to or subtracted from the accumulation with equal ease and speed.

Low-Cost Calculator. One manufacturer of machine calculators, with a range of models and prices to suit all types of business budgets large and small, has just brought out a newcomer to its line, the low-cost, semi-automatic "Figuremaster," which has all the automatic features of the fully-automatic model, except automatic multiplication.

The 18 principal new features of the "Figuremaster" line include automatic point-off in division, indicated either as a decimal or percentage; 40 per cent greater dial visibility for easy readings; and "phantom touch" key action for effortless operation. Both fully-automatic and semi-automatic models are available in ten-or eight-bank capacities, so that the expanded line provides four basic models, adaptable to all types of business.

New Device Simplifies Use of Transcriber. A large transcribing machine manufacturer is now featuring a device known as Television Indexing on its latest portable transcribing machine. Through its use the operator can observe the disc as it is being played, watching for corrections which are plainly visible on the Television mirror which blows the record up to four times its original size.

The Television Index eliminates the necessity for marking paper slips to indicate the end of letter or corrections. The operator can detect these by spacing of recording grooves which are visible in the Television mirror which pops up on top of the transcribing machine.

Usefulness of many of the new equipment products now available extends beyond the realm of the office, incidentally. For example, inexpensive lines of adding machines, files and other equipment are being used on the modern farm, and dictating and transcribing equipment is currently in use in the teaching of languages and the recording of books for the blind.

From a press release issued by the National Business Show.

PERSONNEL

Pointers on Pension Bargaining

THE problem of costs and coverages in pension bargaining vary considerably with the size of the individual company and the average age of its employees. Merely following a "pattern" without considering whether that "pattern" fits your situation may be inviting bankruptcy. Before you even start to bargain on the subject, put the cost picture at your fingertips. The following are some factors that will directly affect it.

Tie cost to service—but do not consider pensions deferred wages. For accounting purposes, the cost of a pension should be tied to service out of which pension credits arose, so that your total expense for any employee will be fully reflected at the time he is productively earning. This keeps your labor cost picture accurate. Remember, however, that this is solely an accounting measure. It is *not* an admission that a pension is deferred wages, or that it may be directly counted as a withheld part of *present* compensation. The consequences of admitting, as a business principle, that pensions *are* a form of deferred wages, can be financially disastrous. If it is true that the money is earned *now* but paid later, then you can't simply dismiss as so

much talk a demand that an employee's right in these deferred wages which he has earned be given to him now—in other words, a demand for 100 per cent immediate vesting. That's because the issue has become tangled up with questions of justice and property rights.

Complete immediate vesting means an increase in pension costs of at least 50 per cent in the average case. It completely deprives a group pension plan of *all* the benefits that accrue from *group* experience. It is no longer possible to cancel out the credits that have been built up for employees who die or withdraw in order to reduce over-all costs with respect to those who remain.

"Cents per hour" bargaining agreements. The expression of payroll contributions in terms of so many cents per hour is a useful tool to express the limits of employer obligation toward a pension fund in terms that are readily understood. However, "10 cents per hour" *does not mean* that each employee is to receive a pension benefit that is anything like that figure. Any pension literally funded like that would result in gross inequities. Ten cents an hour for any employee of 25 buys vastly more pension credit than 10 cents an hour for an employee approaching retirement age. As a matter of fact and figures, to secure the *same* retirement benefit for each worker, it may be necessary to put in as much as 25 or 30 cents an hour for the older man and as little as four or five cents for the younger. The average could be "10 cents an hour," but if you use it, make it clear that you are speaking of an average.

Unfortunately, the pattern of "cents per hour" contribution is already established. Much clearer thinking might result if the contributions were expressed in a total sum, or in a percentage of payroll without *tying the amount to a definite per capita sum.* When an employer takes the attitude that he is willing to give a 10-cent increase and leaves it to the union to decide whether to take the money as a pension or directly in the pay envelope, he is paving the way for a later demand that individual rights be fully recognized and preserved.

Basic cost questions. Fundamentally, there are only two questions to settle in pension bargaining. The first is: What will management agree to pay, if anything?

So far as the *size* of the contribution itself is concerned, pension bargaining might not be too different from wage bargaining. However, the *permanency* of the commitment demands that you examine your long-range ability to pay much more closely. You must also consider how the size of the past service credit liability will affect the amount of money left available for replacement of equipment and future expansion.

The second question is: Approximately what benefit will that payment buy?

There is a dangerous tendency to think of pensions in terms of benefit, rather than in terms of cost. It is not good business to make a firm agreement on benefits and then work back to an estimated cost, which may or may not measure your full liability. Initial costs by their nature are only estimates which are about as good or bad as the common sense that went into making them. Therefore, keep your bargaining commitments to contributions, not benefits.

Preparation for bargaining. Get impartial and sound actuarial and legal advice before you start to talk. Study your firm and its financial prospects, as well as the prospects of your whole industry. This is *long-term* planning at its longest—60 or 70 years for some of your present employees. Have your own cost estimates ready *in advance.* Union estimates of what a benefit will cost are not usually conservative. Furthermore, they won't be based on the same data that you have readily available.

What unions are after. Here's a composite picture of the basic union demands in the pension field:

a. Noncontributory pensions.

b. Equal representation in the management of the fund.

c. Full pension benefits to employees immediately retired.
d. A flexible retirement age.
e. Retirement must be voluntary.
f. Full immediate vesting—no loss of accrued benefits when employee leaves.
g. Minimum benefits at $100 per month for full service at the lowest wage class.

Pension planning at the bargaining table. Unless you have unlimited resources, the only sound approach to working out a pension plan at the bargaining table is to agree to costs and make the benefit only an estimate—not the other way round. That keeps your contractual obligation within reach. However, tying down the cost doesn't avoid some outlining of *possible benefits,* since it is in terms of what you hope to buy that costs are fixed. A rational approach to benefit discussions involves these steps:

1. Agreement on the general principle that it is impossible to buy more benefits than your contributions will cover. If you can't get agreement on that, there's no point in going on.

2. Thinking in terms of the greatest amount of straight retirement benefit that the contribution will buy, particularly when operating against a limited budget. Once tentatively committed to a definite monetary contribution, work out the best possible pension benefit without any additional costly features. It is surprising how far a small percentage of payroll will sometimes go in terms of pure retirement cost, particularly when your average worker's age is low. Rule of thumb guesses sometimes used are that a pure retirement benefit of 40 per cent of total earnings will amount to 6 per cent of payroll *when spread over 40 years* of funding, and about 8 per cent of payroll *when spread over 20 years of funding.* Once you know the most your money can buy, it is evident that you cannot provide a greater retirement income, or add to that same income any of the additional cost-making features, without either increasing the amount you are willing and able to pay, or getting the additional money from the wages already established—in other words, employee contributions. (You can hardly expect agreement on a wage cut.)

This is the only sound approach to the subject of contributory vs. non-contributory plans in collective bargaining. No sacred principle is involved—it's a simple question of economics. The question of employee contributions is too often attacked initially as an element to be decided *before* probable benefits are talked over, rather than the necessary and logical consequences of *agreement on probable benefits.* Where you can afford to finance an acceptable pension benefit on the basis of the sum you have agreed to provide, employee contributions aren't needed unless the employees themselves would like to have a still more adequate plan. If your agreed amount will not provide an adequate benefit and you cannot make any further concession, the union should agree to take a chance on inadequate benefits or supply the rest of the money.

In all pension discussions with the union and with your employees, keep these principles in mind continually:

1. The only true cost of any pension is what it finally costs. Initial expenditures now are only *estimates*—good or bad as the wisdom and foresight which made them are good or bad.

2. The more additional benefits are added to pure retirement, the greater the expense. When you are willing or able to increase fringe benefits, always consider first whether a fringe addition is ultimately more desirable than a higher retirement income.

If you set up the problem in those terms, you increase the chances of achieving a pension plan which you can reasonably depend on to accomplish at least its *primary* purpose—security in old age.

Research Institute of America, *Labor Coordinator,* Edition 6, Supplement 23, p. 78, 161:3.

Conditioning Employees for Incentives *

By R. F. KENT
Staff Supervisor
Headquarters Wage Incentives
Westinghouse Electric Corporation
Pittsburgh, Penna.

THE past 25 years have seen increasing use of incentives to stimulate productivity and widening interest in their proper application, installation, and administration. There is, however, one aspect of incentive planning that appears to have been neglected—namely, that of conditioning employees for incentives. Regardless of the merits of any incentive plan, it will fall short of achieving full effectiveness if employees do not understand and appreciate its value to them. (In this discussion the term "employee" is not confined to the operators alone, but includes supervisors and other members of management as well.)

Executive management, in many instances, can be criticized for failure to recognize the necessity for conditioning its employees for incentives. And in many companies management is equally remiss in conditioning its supervisors properly. But how can we expect the operators to have confidence in the application of incentives if their immediate supervisors lack a fundamental knowledge of the incentive plan and an honest belief and confidence in its purpose?

The first step in conditioning employees for incentives is to acquaint the supervisory group with the philosophy surrounding the plan. A very thorough explanation regarding the necessity of the plan, why the particular plan was selected and the manner in which it functions should be given these personnel. For the sake of emphasis, it may be well to have a member of executive management lead this discussion.

Supervisors must see the benefits that will be derived by management—must understand how incentives with accurately established standards based on time study reflect a more accurate control of costs. They must be made aware of the fact that incentives require more accurate scheduling of work, flow of material, and utilization of facilities. In short they must fully understand the role of incentives in increasing their own effectiveness and that of every employee in the department.

How can the supervisor operate his department so as to encourage each employee to surpass a fair day's work and thus increase his pay? The following steps are essential if this objective is to be attained:

1. Make certain that there is a sufficient supply of work ahead of the operator and that the supply is continuously maintained. *Check this constantly.* Furthermore, the production organization should provide the necessary manufacturing information to keep the department properly loaded at all times.
2. Review carefully the operator's interest in and adaptability to the work he is performing. If he is interested and lacks skill—train him. If he is interested in the work, but not adapted to the operation—change him. If he is not interested in the work—unable to acquire the knack—he should be moved to another job, if another job would be more suitable. If not, action should be taken to replace him.
3. Definitely establish the tools, equipment and methods that will be employed in doing the work before the time standard is established. This should be done by the supervisor with the assistance of the industrial engineer. This is because the supervisor is responsible for the efficient

* The views expressed here are the result of experience gained in the consulting field and do not necessarily reflect the policies and procedures of the Westinghouse Electric Corporation.
NOTE: This abstract is based on a full-length article, copies of which are available upon request to the author.

operation of his department while the industrial engineer functions in a staff capacity. As the latter is not a part of the line organization, his job is to assist, rather than to direct, the department head.

4. Instruct the operator in the proper method to be followed in performing the work. Teach and train—teach and train—*this is important.*
5. Take steps to insure that operating conditions on which the time standard is based are maintained. If management changes the tools, equipment or methods in use, the time standard must be revised accordingly.

Let us now consider the problem of conditioning the operator to incentives. This conditioning should actually start in the employment department at the time he is hired. The new employee should be advised of what will be expected of him and of the disadvantages as well as the advantages inherent to the job on which he is to be placed. This is especially important in cases where an incentive is involved, for the proper explanations at the time of employment will go far in preventing discouragement.

What commonly happens is illustrated by the case of Bill Brown. Bill applies to the employment department for a job. If the labor market is tight, he is welcomed with outstretched arms. He is told what a fine plant this is to work in and what a swell bunch of fellows he will work with. After listening to this for a while, Bill remarks, "Sounds good, but what I want to know is, how much will I get per hour?" The interviewer indicates the going rate for the job and as an afterthought, blandly adds, "Oh yes, I forgot to mention that we have an incentive. The boys make good pay on that—at least time and a half." Bill is hooked and the next day starts on the job. But where does he learn about how the incentive plan functions? From his fellow-workers, of course.

Bill also finds out all too soon that all the operators are not making time and a half. Such disillusionment can easily sow the first seeds of dissatisfaction. Had the employment department taken the proper steps to indoctrinate Bill in the workings of the incentive plan and in the manner in which it would affect him, the results might have been quite different.

An individual's earnings under an incentive plan will be contingent upon the time which he requires to do his work. What, then, are the factors most likely to govern this time? One is habit. The operator has learned to do the job in a certain way and at a certain pace. If you attempt to change his habits you will have to show a very good reason for doing so. Back of habit lies custom. Usually the pace at which the majority of workers perform their jobs establishes what comes to be regarded as a "fair day's work." If the operator is to accept incentives and earn increased pay, both his habits of work and customs must be modified so that he increases production through increased efficiency.

There are two major objectives, then, in conditioning operators for incentives. These are (1) creation of the proper mental attitude and (2) change in the physical tempo required. Let us look at the first of these—creation of the proper mental attitude.

Indoctrinating the new employee for incentives in the employment department in itself is not enough—the new man's immediate supervisor should discuss the reasons for incentive plans in general and how the specific plan in force in their plant functions. The fact should be brought out that it may be necessary for the supervisor to change the operator's routine from time to time, and the reasons for doing so, as well as the reasons for changing the time standard in event of such method changes, should be clearly explained. The new man should also be taught how to calculate his pay. All this will do much to remove many of the barriers that often exist between operator and time study engineer.

The second aspect of conditioning operators for incentives is concerned with the change in physical tempo required. The supervisor must explain the reasons for expected increases in production, and show the worker how he can increase his production and thus avail himself of the advantages offered by the incentive. More-

over, a certain period of time must be allowed for him to adjust his tempo to the higher level of production.

While the conditioning of an employee will depend to some degree on his previous experience, there are certain minimum requirements which, if met, will smooth the task of obtaining good performance. These requirements are:

1. Selection of an employee suited to the job being filled
2. Explanation of the particular incentive plan in effect
3. Provision of correct methods and tools
4. Adequate training of the employee, with emphasis on correct production habits
5. Maintenance of conditions necessary for high production
6. Good incentive supervision

In a talk last year before the Alumni Conference of the Harvard Graduate School of Business, Richard R. Deupree, President of Procter & Gamble, summarized the essentials of sound planning, as follows: "Select a man carefully for the job he is going to fill, give him proper training and supervision, then give that man a real chance to prove his ability to earn more money through a wage incentive plan that pays him more for work above the average." If any incentive plan is to succeed, from the standpoint of workers as well as management, it is most essential that the conditions outlined in Mr. Deupree's statement be observed.

Improving Your Supervisory Selection Methods

WHAT are the criteria of a good supervisory selection program?

In the first place, a good supervisory selection program requires full participation in the program by all line supervisors and executives involved. No program will stand up without this participation at every step of the process. Anything the personnel office may do on supervisory selection must be considered in terms of advice and assistance rather than in terms of actual control of who is selected.

Second, a good selection program takes full advantage of knowledge of the employee's performance obtained during his work history with the organization, in order to furnish an incentive to better performance. This does not imply that the best non-supervisory employee makes the best supervisor. What it does mean is that consideration should be given those factors which can be observed in an employee's present work performance—even though he is in a nonsupervisory position—if those factors are relevant to performance in supervisory work. The most obvious example is the factor of relationships between the employee and his colleagues. What reason is there to believe that an employee who has not maintained good relationships with his colleagues will do any better in interpersonal relationships after he becomes a supervisor?

A third element of a good supervisory selection program is the obvious one—that, based upon actual performance, the methods in use bring about an improvement in the quality of supervision. The individual situation must determine the best method for evaluating these results. However, even if all criteria, save this, are met, we have an impressive facade, but no realistic reason for considering the program adequate.

A fourth criterion of a good supervisory selection program is the extent to which it offers opportunity for upgrading to employees other than those who are immediately under the supervisor being replaced. We all recognize the possible disadvantages of extending this competition too far. But an objective program for supervisory selection will convince most employees that this extended competition is fair, and it will certainly help to improve the caliber of supervision. Everything we know about statistical proba-

bility indicates that extended competition would lead to better selection.

Finally, the men who are affected should feel that the method used is fair and objective. In other words, if an employee can say to himself that his chances for rising to the top are entirely based upon demonstrated work performance, which will be considered in an objective manner, and his rise to the top will be based upon selection methods which are the same for all employees, then we have a basis for sound morale. It is interesting to note in this connection that it was the employees who requested the Navy Department to reinstitute the competitive program for supervisory selection at the beginning of 1945, after the program had lapsed during the war years because of the great expansion of the supervisory force and the shortage of supervisors.

Let us now consider what some companies are currently doing in the field of supervisory selection. The Kaiser-Frazer Company's program consists essentially of the following steps: First, recommendations are made by those in supervisory positions. (In order to make certain that appropriate qualities are taken into consideration, a checklist of the most important qualifications are made available to those making the selections in the Kaiser-Frazer Company.) Second, there are several interviews by supervisors with employees recommended for supervisory positions. Third, a number of tests are administered to these candidates. Fourth, there is an evaluation of the employment and personal history of candidates. And finally, selectees go through a special training program in order to insure that they are fully equipped for their new responsibilities. One of the techniques used by Kaiser-Frazer is to upgrade candidates for these positions temporarily to a foreman's position during the absence of the foreman in order to test the applicant's fitness. In the opinion of company officials, this has proved a most practical method of measuring leadership ability.

The Hoover Company of Great Britain uses nine different selection methods. These include a verbal test, a test of abstract reasoning ability, rating by supervisors who know the candidate, the group oral performance test, a test on knowledge of good supervisory practices, a test on company policy, a test on opinions relevant to supervisory work, a performance test in which the candidate interviews a worker who has a problem, and an individual interview on the background, work record, attitudes, interests, appearance and manner of the candidate. Note that in each of these two companies, Kaiser-Frazer and the Hoover Company, there is no reliance on one technique alone.

It is of interest to note that a test similar to the supervisory judgment test—which has been developed by the United States Civil Service Commission in connection with its work with the Navy Department on supervisory selection—is also being used in private industry. It is being used by the Hoover Company, by a large American oil company, and by a Swedish foundry. In government service, it is used, not only by the Navy Department, but also by the Department of the Army for open competitive selection for trade supervisory positions, and by various Civil Service regions, for the selection of clerical supervisors. The test attempts to measure the understanding of the applicant in two areas of supervisory responsibilities—namely, (1) his judgment in situations involving relationships with employees and his own superiors, and (2) his judgment and understanding of the personnel responsibilities of the supervisor on such matters as the training, placement, and performance rating of employees. Indications of the validity of this test are based upon two large-scale studies conducted in 1946 and 1949 on trades supervisors.

A good program for supervisory selection should take advantage of all the knowledge that has been acquired in the research work of industry, military forces, and government. It should also be based upon sound management practices. A complete program, which obviously would have to be modified in individual instances, would consist of the following steps:

1. Employees are invited to participate.

2. Written tests of demonstrated validity are administered.

3. Some kind of personality evaluation is used—for example the group oral performance test, the individual interview, or a performance test similar to that of the Hoover Company or the Kaiser-Frazer Company. The extent to which these tests are used would of course depend upon the resources available for this work.

4. On the basis of the data obtained from the employment history of the applicants, the supervisors' statements of performance, the written test scores, and the interview and performance test, a tentative list is then established. This covers perhaps three broad groups—namely, an "A" group who seem to be the best potential supervisors; a "B" group who seem to be fit material; and a "C" group who appear to have the least potential aptitude. These lists are made available to the executives who then select about 20 per cent more names than the number needed to meet the predicted needs for the year.

5. Training in supervision is given to the persons selected by the supervisors. A record of the training results is made available to line executives. Then, on the basis of all this data, the supervisor, keeping in mind the particular requirements of the job he has to fill, makes his selection when a vacancy occurs.

By MILTON M. MANDELL (Chief, Administrative and Management Testing, U. S. Civil Service Commission, Washington, D. C.). *The Federal Employee,* August, 1949, p. 8:4.

BLS Cautions On Use of Price Indexes In Contract Escalation

PROPER use of price indexes in escalator clauses in collective bargaining and purchase contracts is the subject of a new publication by the United States Department of Labor's Bureau of Labor Statistics.

In announcing this release, BLS points out that the Wholesale (Primary Market) Price Index and the Consumers' Price Index (formerly known as the Cost-of-Living Index) are the official measures of price change in the United States. It is emphasized that full knowledge of the coverage of each index as well as the dates of publication and revision is essential to practical negotiation and escalation.

While the Bureau does not specifically recommend the use of any of its price indexes in escalation clauses in contracts, it is aware, nevertheless, that this particular use of price indexes is widespread. Accordingly, the publication has been prepared to enable contracting parties to make the best possible use of the available data.

Single copies of *Use of the Bureau of Labor Statistics' Price Indexes in Contract Escalation* may be obtained free from the BLS New York Regional Office at 341 Ninth Avenue, New York 1, N. Y.

Breakdown of Labor Costs for 36 Industries

HOW much of the company dollar goes into labor costs?

Results of a new survey of labor costs by Standard & Poor show that industries with the lowest labor costs include sugar with 9 per cent, brewing and distilling with 9.2 per cent, and tobacco with 9.3 per cent. Many food products as well as petroleum also rank in the lower brackets of labor costs. On the other end of the scale, shipbuilding, gold and silver mining and manufacturing of office equipment have wage and salary costs which run over 50 per cent of the final sales dollar. Shipbuilding and air transport run over 40 per cent, but less than 50 per cent. Also on the high side, with labor costs running over 30 per cent but less than 40 per cent, are the following: Household furnishings, agricultural machinery, rubber, beverages, steel, auto parts, and photographic equipment.

—*Employee Relations Bulletin* (National Foremen's Institute) 10/26/49

Westinghouse Organizes for Safety

WITH the view to doing everything feasible to reduce accidents, the Canadian Westinghouse Co. Ltd., Hamilton, Ont., recently reorganized its safety program. The new blueprint for safety stresses responsibility and participation up and down the line through effective action of a closely knit group of committees.

Under the program, all safety and plant housekeeping activities at both plants in Hamilton are under the direction of a committee known as the Safety Policy Committee. The members of this committee are as follows: assistant manager of works in charge of safety (chairman); safety supervisor—East plant; assistant safety supervisor; one superintendent of East plant; one superintendent of West plant; superintendent of benefit department.

On this committee the safety supervisor and the assistant safety supervisor are permanent members and one of them is appointed secretary. The superintendent is nominated by the manager of works and serves a term of two years. In this connection, the plant engineer, the chief storekeeper and the traffic manager may be considered as superintendents and, as such, are eligible for appointment.

The meetings of this committee are held monthly and may be held alternately at each plant if desired.

Under the plan of organization, the Safety Policy Committee develops and applies the company's policy regarding safety and plant housekeeping and is responsible for the following activities:

1. Drawing up and arranging for publication of safety rules and regulations,
2. Arranging for compilation and distribution of accident statistics,
3. Preparation of the company's budget of plant and employee safety,
4. Coordinating safety activities at the East and West plants and promoting uniformity of guards and other safety devices,
5. Assisting the East plant and West plant Safety Committees in furtherance of their work at the respective plants,
6. Receiving and acting upon recommendations of the East and West plant Safety Committees. (Minutes of committee's meetings are sent to the chairman and secretary of the Safety Policy Committee.)

Each plant has its own Safety Committee consisting of: the safety supervisor; the assistant safety supervisor (secretary); two superintendents (or plant engineer, storekeeper, traffic manager); and two foremen.

In this committee the safety supervisors and the assistant safety supervisors are permanent members, with the superintendents serving two years and the foremen one year. Again, meetings are monthly.

The duties of these plant Safety Committees are:

1. To maintain general supervision over safety and plant housekeeping,
2. To interpret the safety policies of the company to the safety subcommittees and assist in carrying them out,
3. To arrange for the appointment of members to the safety subcommittees at the plant and to see to their proper rotation,
4. To receive and act upon recommendations of the safety subcommittees (minutes of the subcommittees are sent to the chairman and the secretary),
5. To encourage and assist the safety subcommittees in every way possible.

The Safety Committees for the two plants are identical except that the assistant manager of works acts as chairman for the West plant committee and the assistant safety supervisor acts as secretary.

Safety subcommittees are established for each plant. They represent geographical areas within the plant and membership includes foremen, assistant foremen, supervisors and rank-and-file workers. It has been established that one member should represent approximately 40 employees in the territory of the subcommittee.

To keep workers interested in the safety program, the company tries to have as many employees as possible participate in its activities. Therefore, the term of membership on these subcommittees is one year, with half the members being replaced every six months. (Previously, the term was two years with 25 per cent of the membership retiring twice yearly.)

In all, 15 subcommittees are in operation, with a total membership of 140.

The meetings of these subcommittees

are held monthly and copies of the minutes are sent to both the parent committees.

The subcommittee chairman is chosen from among the members of the committee and holds office for one year. In the case of the chairman, his term of membership on the committee is automatically extended to 18 months when he is elected chairman of a subcommittee. The secretary, also elected from the membership, does not have his term extended beyond the yearly period.

The outline of the safety program organization lists the duty of the subcommittees as:

1. To develop and maintain interest in accident prevention and plant housekeeping in the respective territories,

2. To maintain constant look-out for unsafe conditions or practices and to initiate corrective measures for any hazards found,

3. To bring to the attention of the Plant Safety Committee any items of general safety interest or matters which may be beyond the jurisdiction of the departmental supervisors concerned.

This reorganization was put into effect last April. The first month of operation showed a drop in accidents by 40 per cent as compared with the previous month. In addition, an improvement of 34 per cent was noted in days lost as a result of accidents—a fine record for a newly-installed program.

Plant Administration August, 1949.

Wages and Hours in Distribution

THE Bureau of Labor Statistics has published a survey of wages and hours in the distributive trades, broken down by marketing areas. National average for wholesale trade (August, 1949) was \$57.36—40.8 hours; general merchandise, \$35.31—36.9 hours; department and mail-order, \$38.96—37.5; food and liquor, \$51.17—41.1; auto and accessory, \$40.85—36.9; furniture and appliance, \$53.48—43.8; lumber and hardware, \$52.38—43.9.

You can get figures for your area to help determine whether you are out of line.

—*National Sales Executives Digest*

"Democracy's Last Ticket"

A Memo to Top Management

By EDWARD C. BREHMER
The Texas Company

SOUND personnel management has been called one of democracy's "tickets to the last boat." Industrial management, from first-line supervision to the top echelons, must be a major contributor to the survival of our American system of private, competitive enterprise; and management's effectiveness will be determined by the degree of its understanding and practice of *proper* personnel administration.

When a business organization establishes personnel administration primarily to provide facilities to implement collective bargaining agreements, the real objectives of an effective over-all personnel program are lost, and management overlooks a potent production force.

Personnel administration is a major day-to-day operating activity on all managerial levels. It is the means by which top management attains most of its objectives, and it is inseparable from any activity of management.

Personnel administration is a mature management technique, the aim of which

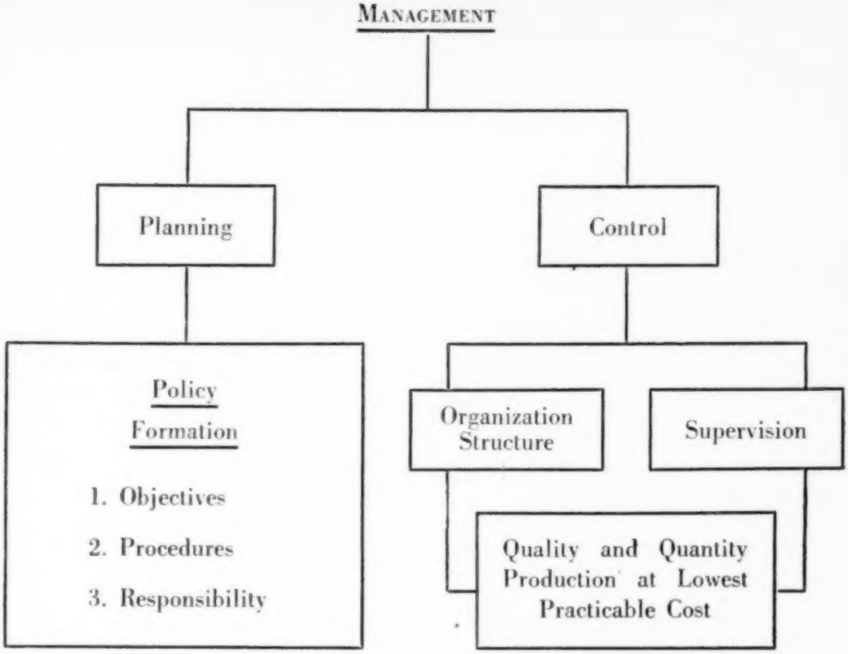

FIG. 1: Functions of Management

is the full, productive use of employee skills. Its ultimate goal is optimum production.

It is axiomatic that increased and high-quality production, maximum utilization of manpower, and operation at the lowest practicable cost are attained through the efforts of *people.*

As business executives, you are most interested in *securing efficient operation* and *maintaining a satisfied organization of people.* This can be achieved through a good program of personnel administration. A sound personnel program, adjusted to the size and needs of your organization, is indispensable in accomplishing the major functions of management (Figure 1).

Good management and good personnel relations are inseparable—they are one and the same thing.

As a manager you want:

1. An efficient and satisfied work-force
2. Increased and high-quality production
3. Lowest practicable costs
4. Improved manpower utilization

How can these be attained?

1. Secure *efficient* people by an adequate program of *selection* and *induction.*

2. Maintain *satisfied* people by a sound program of *employee relations* and *wage administration.*

3. Secure *increased and high-quality production* by *full utilization of manpower* through *proper training, communication of information,* and an adequate *health and safety program.*

That these techniques, as embodied in a well-rounded personnel program, can produce the sought-for results is demonstrated graphically in Figure 2.

BENEFITS OF GOOD PERSONNEL ADMINISTRATION

What a Good Personnel Program Can Accomplish	Increased Production	Quality Production	Reduced Operating Costs	More Efficient and Satisfied Employees	Better Manpower Utilization
A. A Selection and Induction Program by:					
Proper Selection and Placement	X	X	X	X	X
Payment of Proper Salaries and Wages	X	X		X	X
Full Utilization of the Labor Market	X	X	X	X	X
Proper Utilization of Skills	X	X	X	X	X
Accurate Determination of Personnel Requirements	X	X	X	X	X
B. A Training Program (Including Programs of Communications) by:					
Developing Skills for Job Requirements	X	X	X	X	X
Creating Interest through Better Understanding	X	X	X	X	X
Providing for Acquisition of Knowledge for Job Requirements	X	X	X	X	X
Simplifying Work and Work Procedures	X	X	X	X	X
Insuring Sources of Qualified People	X	X	X	X	X
Stimulating Greater Efficiency by Improved Training Methods	X	X	X	X	X
Increasing Individual Production	X		X		X
Assuring Better Knowledge of Job Requirements	X	X	X	X	X
Eliminating Unnecessary Work	X		X	X	X
Increasing Employees' Value to Company				X	X
C. An Employee Relations Program by:					
Creating and Maintaining Harmonious Relations between Employee and Employer	X	X	X	X	X
Better Adjustment of Employees to Positions	X	X	X	X	X
Expediting the Adjustment of Complaints and Grievances	X	X	X	X	X
Providing Channels of Communication between Employer and Employee				X	
A Program for Controlling Absenteeism	X		X		X
A Program of Employee Counseling or Guidance to Encourage Full Utilization of Aptitudes	X	X	X	X	X
A Program for Enlisting Employee Suggestions	X	X	X	X	X
A Program to Make Employees Continually Conscious of Their Contribution to the Efforts of the Company				X	
Reducing Labor Turnover through Pre-Exit Interviews			X		X
A Program of Employee Benefits, including:					
Group Life Insurance and Pension Plan				X	
Accident and Sick Benefits Plan				X	
Medical and Hospitalization Plans				X	
Vacation Plan				X	
Disability Plan				X	
Establishing Promotional Opportunities for Trained People				X	X
D. A Classification and Wage Administration Program by:					
Payment of Proper Wages and Salaries and, Where Appropriate, Other Incentives to Stimulate Productive Activity	X	X		X	X
Proper Allocation of Positions	X	X	X	X	X
Stimulation and Recognition of Achievement in Individual Effort through Merit Increases in Salaries and Wages	X	X		X	X
Standard Job Classifications to Stimulate Employees to Acquire Higher Skills and Abilities				X	X
Wage Surveys to Determine Proper Salaries and Wages				X	X
E. A Safety and Health Program by:					
Program to Reduce Fire and Accident Hazards	X		X	X	X
Maintaining Safe and Healthful Working Environment That Will Stimulate Employees' Best Endeavor	X	X	X	X	X
Encouraging Periodical Physical Examinations for Early Detection of Illness				X	X
Visiting Nurses and First Aid, Where Practical, to Reduce Hours Lost through Illness or Accident			X		X
Educational Health Program on Nutrition and Proper Living				X	X
Encouraging Medical Care by Stimulating Interest in Physical Condition	X	X	X	X	X
Educational Program to Make Employees Safety-Conscious			X	X	X

FIG. 2

Film Fare for Industry

THE motion picture film as a device in visual education has made rapid advances during the past decade. The hand may be quicker than the eye, but many industrial training directors contend that the eye is quicker than the ear, and so they are combining auditory and visual presentations, through the use of films, to get their messages over to customers, employees, and the general public.

Moving pictures are available today that cover every aspect of management's activities. They range from safety films, training (employee and supervisory), to films dealing with time and motion study, manufacturing methods, materials handling and quality control. The salesman uses films to back up and graphically tell his story to the customer, and many companies employ them to dramatize their histories or to demonstrate in one-two-three terms how a free economy functions.

Some manufacturers invest considerable money to produce motion pictures of their own. They call in professionals to do the job at a cost anywhere from $5,000 to $125,000, depending on the length and elaborateness of the film itself. To meet specific problems, others make the movies themselves, with their own people as the actors. In doing this, some managements have displayed unusual ingenuity. But rent, borrow or buy is the general rule that employers follow in acquiring films. A great many companies, incidentally, are very generous about sharing their films with their industrial neighbors.

A fast pace has been set by industry in adapting the motion picture to its needs. In a typical plant in which films are utilized as part of the employee education program, for example, the training director (if the plant is large enough) or the personnel director puts on the show. It may consist of an employee orientation film, or more likely one that deals with some phase of the manufacturing process. It is one of many, shown on a weekly or monthly schedule, during working hours, and lasting anywhere from 15 to 45 minutes. Chances are it has been borrowed or rented unless it concerns a condition peculiar to the company itself. This typical example was drawn from interviews with 26 Cleveland companies about their film practices.

The subject coverage is comprehensive. One manufacturer even has a film that explains public relations, and several have documentaries that trace the development of their industries. From the standpoint of entertainment value, they are in a class with movies made for the commercial market.

Where does a company get its films? The sources are many and varied, and for the most part, easily accessible. As mentioned earlier, they rent, they borrow, they buy or they make their own. Seventeen firms indicated that their films were available to other managements. The cost of renting from a film library ranges from $1 to $15, with the average somewhere near $5. To purchase a print outright, a company spends from $25 up to $150, but the price of a short technical film seldom exceeds $50, and many can be bought for less than $25. In fact, only one company reported that it had any difficulty obtaining desired motion pictures. But some were handicapped by lack of adequate facilities. Four said their space for showing movies left much to be desired.

Companies use films to accomplish two main purposes. The first may be described as educational in its limited or technical sense. Under this classification are grouped movies which instruct on safety, training, manufacturing methods, industrial relations, etc. Documentaries, films that explain the American system of free economy, and even those made to sell a company's products are, of course, broader in design, and are shown not only to employees but to the public as well.

And they are effective. "Excellent," reported 20 companies when asked about results. "Seemed to do a lot of good, but hard to judge" was the more cautious

reply of five others. Only one management was dissatisfied. To determine the effectiveness of a film, managements for the most part depend on question-and-answer periods (16 firms); only three of those surveyed have formalized their methods of gauging employee reaction through written tests.

Managements that use the motion picture as part of their training program believe in frequency. Fourteen companies indicated that they have no regular schedule but show movies whenever advisable—and that this is frequently throughout the work year. On the other hand, three companies have movies once a week; two every two weeks; six once a month; two every three months; one every six months; and at one plant a movie is shown every working day during lunch period (attendance optional).

Ten to 45 minutes is the average time consumed by a company film, although there are occasions when a series are shown for orientation or other special purposes. Usually they are scheduled during working hours, especially if they have to do with the employee and his job. However, nine companies said they exhibited films at night, especially when they were of broad general interest. Two companies have movies available during the lunch period.

For the most part an employee sees a film only once. Two companies however, believe in repetition. One of them requires its people to see each film every three years, and the other as often as necessary.

For the Informed Executive (The Associated Industries of Cleveland) August 1, 1949, p. 2:3.

PRODUCTION MANAGEMENT

Wage Incentives Can *Improve* Quality!

QUALITY need *not* suffer under production incentive systems. In fact, it has been the writer's experience that quality usually improves where a carefully thought out and well-administered wage incentive system is installed.

Perhaps this conclusion is best supported by a review of the major causes of scrap and inferior quality and a consideration of the means for eliminating these causes. In the course of this review it will readily be seen how a well-planned and administered wage incentive system can help at many points to bring to the foreground the problems connected with quality maintenance and the need for their solution.

1. *Materials not to specification.* Generally under a wage incentive system, the specifications for materials used in the manufacturing process are very well understood by all employees who utilize them. Where material is not up to specification and, as a result, will cause additional machining time or increase the possibility of scrap, the employee will be the first one to bring this condition to the attention of supervision because it will vitally affect his earnings. Where a wage incentive system is not in operation and materials received are in accord with specifications, this may not be detected until the fabrication process is well under way and, in many cases, not until the finished article is completed.

2. *Process Sheets.* In order to operate

under a wage incentive plan, it is vital that detailed cost sheets outlining each operation to be performed and the sequence of such operations be compiled and released to the time study group as well as the production foremen. Where a wage incentive system is in operation, care is exerted by timekeepers as well as individual employees to make certain that each of the operations is followed in proper sequence. So far as the individual employee is concerned, he is especially critical if a change of processing takes place which results in an increase of machining time without the corresponding adjustment to the labor standard.

3. *Receiving inspection.* In order to insure minimum scrap and rework costs, it is vital that each organization maintain a well-organized receiving-inspection procedure. Here again, where a wage incentive system is in operation, the employee will be very quick to bring to the attention of management any material defects so that these will not cause deductions from his earnings. It is important, however, that such defects in materials be determined prior to the actual performance of work on materials in order to avoid payment for work on materials which are eventually scrapped. This is where the inspection department as well as the production foremen can be of great service to the company.

4. *The use of incorrect or defective tools.* Where a wage incentive system is in operation, and faulty tools are increasing the time required for fabrication of parts, this condition will in most instances be immediately brought to the attention of the production foreman by the individual employee. However, if the use of such tools does not affect the fabrication time but does result in inferior quality, the problem will generally be detected only through proper supervision and careful process inspection. Quality might well be protected here by going to some expense for more rigid tooling and tool inspection.

5. *Improperly sharpened tools.* Since full tools are most apt to increase machining time, we are more likely to find employees using sharp tools where a wage incentive system is in operation.

6. *Insufficient operational process inspection.* Too often in business organizations we find that the inspection is made after the article is finished, despite the fact that several individual fabricating operations may have been performed prior to completion.

Where a wage incentive plan is in operation, arrangements are generally made not to pay wage incentives for succeeding operations where a defect is obvious to the employees who perform such succeeding operations. However, too often such imperfections are not observable and, unless sought out by a trained inspector and inspection equipment, will not be determined until the finished product arrives at the final inspection point. This is a very important item in connection with group incentives and, where a group incentive plan is in operation, there is a very definite need for operational inspection.

7. *Agreed-upon quality standards.* A very important factor that causes more scrap than we realize is the lack of agreement on quality standards by the engineering, procurement, production, and inspection divisions before actual procurement or fabrication starts. This not only results in scrap losses and production delays, but in many companies has also engendered hard feelings among the several departments. Where a production wage incentive system is in operation, we are more apt to find that such standards have been previously agreed upon for, in order to establish fair wage incentive rates, it is first necessary to know the specifications on materials, finish, etc. If, perchance, under a wage incentive system such standards were not predetermined, the matter would be rapidly brought to a head by the employees themselves, who will object strenuously to any changes in quality requirements without corresponding changes in the time standards.

8. *Quality control records.* Another item which is constantly overlooked and is a direct cause of abnormal scrap and poor quality is the lack of proper statisti-

cal records pertaining to inspection, scrap, and rework. Such quality control records are a prerequisite of a properly installed production wage incentive plan and, where such records are in existence and analyzed by production management, quality will inevitably improve and scrap and rework costs decrease.

9. *Incentives for inspection personnel.* Have we ever stopped to consider that the lack of wage incentives for inspection personnel might also be a reason for scrap losses as well as inferior quality? When the output of the production worker increases through incentive, the inspector is required to inspect a larger quantity of pieces and must work harder than if an incentive plan for production personnel is not in existence. Unless the inspector is also given an incentive for his extra effort, he will either become less intent in his inspection procedure in order to keep up with the pieces made or he will let them pile up. In either case the company stands to lose because pieces of inferior quality will be made for a longer period of time without detection.

By JOSEPH C. MICCIO, *NACA Bulletin,* July, 1949, Section I, p. 1243:11.

The Responsibility for Stores and Inventory Control—A Survey of Current Organizational Practices

ONE of the questions most frequently asked in connection with industrial organization is whether the stores department should come under purchasing jurisdiction.

There are of course two alternatives to such an arrangement—stores can be set up as a separate and independent department, or they can be placed under the jurisdiction of some other department—usually the one which is to use the purchased goods. The question can also be broken down into two phases—covering (1) the policies of material and inventory control, determining quantities to be purchased and stocked, and (2) the physical administration of stores and issues, including the accountability for materials.

Advocates of purchasing control over stores point out that the two functions are logically related, representing successive steps in purchasing decision, procurement, and handling of the same items. They are so closely related, in fact, that stores records must be constantly available to buyers as a guide to purchasing policies and action. Inventory and purchasing policies must be flexible and they must be coordinated so that the flow of materials may be adequate to meet the need and, equally important, to avoid losses and expense through obsolescence and excessively slow movement of stocks. The exercise of purchasing judgment as to timing and forward coverage, market conditions, and the like, also indicates the advisability of a single responsibility for supply.

As a matter of management control, accountability for expenditures can be far more effective when coupled with accountability for materials up to the time of issue and use, including the responsibility for current investments in purchased goods and their application to the intended purpose.

The argument for independent administration of stores is most persuasive in operations where service and maintenance are the dominant factors, rather than production, as in the case of railroad or public utility operations, and when many scattered stores locations are involved, raising a more complicated administrative problem. There is no question but that the storekeeper's function and responsibility are of major importance. Even under such circumstances, however, close coordination with purchasing is essential.

Stores control by departments using the materials implies the concept of purchasing as strictly a service function, subordi-

nate to production. While it does make for a more comprehensive cost responsibility within the production departments, it tends to negate the responsibility and opportunity for savings through proficient purchasing and to obscure the materials cost factor.

With cost of materials constituting 50 per cent or more of total manufactured product cost, on the average, there is valid reason to segregate this responsibility at the policy level so that any conflict in relative advantages in purchasing and production economies can be evaluated and resolved from an over-all, objective viewpoint of company advantage rather than permitting either departmental view to prevail, and to retain this separate accountability up to the point where purchased materials actually become materials in process. Again, thorough coordination is essential to good performance.

The most recent development in management thinking on this subject is to consider materials control as an inclusive function, giving it the full importance that it merits, with both the purchasing and stores activities included as operating details of the broader policy and plan. While this is nominally a new idea, and introduces a new terminology in the management vocabulary, it is really nothing more nor less than the broadening executive concept of the purchasing responsibility. In a considerable number of progressive companies the chief purchasing executive is known by the title of Director or Manager of Materials, rather than by the traditional titles which emphasize the actual purchasing or procurement responsibilities of his office and thereby tend to limit the scope of his full potential contribution to management.

A survey recently completed by *Purchasing* magazine, covering 484 representative manufacturing companies, shows that the predominant opinion is in favor of having the administration of stores within the jurisdiction of the purchasing department. The question was asked: Is the stores department in your company a separate department, or under the purchasing department jurisdiction, or under some other department? The replies indicate the following: separate department—18.2 per cent; under purchasing department—61.2 per cent; under other department—20.6 per cent.

That the trend is distinctively toward stores control and operation as a part of the purchasing responsibility is indicated by comparing these findings with a survey made some ten years ago by the National Association of Purchasing Agents and cited in the Association's *Handbook of Purchasing Policies and Procedures* (1939). In that study, purchasing departments were reported as controlling stores as follows: Raw material stores—40 per cent; maintenance stores—37 per cent; production stores—34 per cent.

In each case, the percentage was somewhat higher in the case of the smaller companies reporting, and lower in the larger companies where a more finely divided and specialized delegation of authority typically exists, but in no case was the figure greater than 45 per cent. No breakdown as to the size of organization has been made in the current study, but the over-all figures show a substantial trend toward placing the control of stores operations under purchasing department supervision and responsibility.

A great deal of emphasis has been placed during the past ten years on the subject of inventory control—quantities and scheduling—as differentiated from the physical operations and administration of stores departments. The N.A.P.A. survey of 1939 reported that inventory control was the exclusive responsibility of purchasing in 41 per cent of the companies and was shared by purchasing and some other department in 39 per cent. The current survey reveals that 11.4 per cent of the companies reporting have established separate departments specifically charged with this responsibility.

Analysis of the replies on inventory control responsibility indicates that in normal plant operation, the purchasing department is the dominant factor, but in a considerable number of cases—20.9 per cent—the responsibility is shared with other departments. This is particularly true of raw material inventories, where forward buying and stocking is frequently

a major policy matter. Greater leeway is given to production departments in regard to inventories of fabricated parts and components, and to both stores and production departments in respect to maintenance and operating supplies.

In the branch plant, the plant manager has greater responsibility for inventory control, whereas in the general picture management executives play a relatively minor part. This is readily understandable in view of the fact that the actual purchasing in many of these cases is done by the central purchasing office at the main plant, while inventory is an on-the-spot problem. It should be noted however, that while this situation is generally true, the classification of raw material stores—which, as previously noted, involves considerations of policy as well as of immediate production needs—the purchasing department has the dominant role.

The survey tabulation covers three inventory classifications—raw materials, purchased fabricated parts and components, and maintenance and operating supplies. Inquiry was also made regarding control of finished stores, the inventory of the company's own manufactured products as contrasted with purchased items. As might have been expected, the purchasing department has little concern or responsibility in this category.

Certain conclusions can be clearly drawn from this study:

1. The broad function of materials control, including both the policy function of inventory control and the administrative control of physical stores, is primarily related to the purchasing function, along with actual procurement of purchased items.

2. The majority of companies place stores operations directly within the jurisdiction of the purchasing department.

3. The trend is strongly in this direction.

Purchasing, November, 1949, p. 140:3.

Available Literature on Quality Control in Industry

BECAUSE of the great surge of interest in quality control as a means of reducing costs in industry today, the Business Information Bureau of the Cleveland Public Library has devoted the January issue of its bulletin, *Business Information Sources*, to that subject. It contains recent references on what quality control is, why quality control is emphasized today, statistical methods of quality control, administration of a statistical quality control program, reading lists on the subject published by universities and professional associations and other related matters.

Copies are available from the Business Information Bureau, Cleveland Public Library, 325 Superior Avenue, Cleveland 14, Ohio, at 10 cents each to cover mailing and handling charges.

Keeping Maintenance Costs at a Practical Minimum

MAINTENANCE cost is an expense item, and like all items of expense must be kept to a practical minimum for economical operation. In many instances, however, the determining of this practical minimum and how to obtain it, presents many difficult problems and requires the exercise of sound and informed judgment. The control of maintenance costs begins in the engineering and purchasing of equipment. It is hardly necessary to point out that the design and engineering of equipment to fit the use for which it is intended will have a direct effect on maintenance costs. Therefore, the first step in controlling maintenance costs is the procurement of equipment that will be suitable in design and quality for the work to be performed.

In existing installations, a primary consideration is the type and condition of the equipment, and whether the cost of maintaining it in operation is excessive because it is no longer adequate for the work to be performed. However, even the best equipment can require excessive maintenance if it is abused. Where these conditions exist, their elimination may be a most effective factor in the control of maintenance cost.

Thinking now in terms of actual equipment maintenance, we include under this two distinct, but closely related activities—first, preventive maintenance; second, emergency repairs.

Obviously, the more time, effort, and money expended in preventive maintenance, the less time, effort and money will be required for emergency repairs. One of the larger problems in controlling maintenance costs lies in determining the most practical effective balance between these two kinds of maintenance activities.

In considering the extent to which preventive maintenance is economically justified, and will result in an actual cost saving, rather than an additional expense, such factors as the following must be considered:

1. The direct cost of repair to the equipment itself after a breakdown. For some equipment this may prove a very considerable expense.
2. The direct and indirect cost of defective products which may result if the equipment is permitted to get out of adjustment.
3. The loss of production which may result from a breakdown of the equipment.
4. The probable duration of the delay or delays resulting from a breakdown.
5. Possible safety hazards to employees, the public, etc., as a result of breakdown.

This brings us to the subject of maintenance specifications covering the details of the required preventive maintenance procedures. These specifications will establish as a matter of record the requirements of the equipment and the procedures to be followed; how often the equipment is to be inspected; how frequently it is to be lubricated; and at what periods it is to be taken out of production for partial or complete overhaul.

Having determined and specified the amount of preventive maintenance required and justified for each piece of equipment, the next step involved is developing an over-all maintenance schedule for the entire department, division, or company, and establishing a suitable organization for carrying it out. The effectiveness with which maintenance work is scheduled will have considerable effect on control of maintenance cost. Such schedules should be on a long-term basis and should provide for staggering the inspection, adjustment and overhaul of the various pieces of equipment, so that the work can be performed by a minimum force. They should be detailed and specific, but must be flexible enough so that they can be changed to meet emergencies and unexpected breakdowns which may occur even under the most effective preventive maintenance program. One way to accomplish this is to issue daily maintenance schedules based on a long-term schedule embodying the changes made necessary by the conditions just mentioned.

A question which will arise in connection with establishing the most effective maintenance organization will be the

advantages or disadvantages of assigning the direction of maintenance work to operating supervision, versus the establishment of a separate general maintenance department which will be responsible for all maintenance in the various divisions or departments of the organization.

The best procedure will depend on the conditions existing in the individual plant. It may be said, however, that in general, large plants and organizations have found it more advantageous, from the standpoints of flexibility and cost, to establish a central maintenance department to whom all maintenance personnel report. Under this central department, maintenance personnel assigned to various operating departments may be included, together with central repair gangs which serve all departments or divisions.

In many cases, the minimum maintenance force necessary cannot be determined entirely by the amount of maintenance work required on the equipment, but the protection necessary in case of emergencies must also be considered. Determining the hazards which should be taken along this line under specific conditions will require careful consideration of the emergencies which may occur, their likelihood, and possible consequences. It also involves the distribution of work so that there will be a minimum of unproductive idle time.

Where practicable the standardization of parts and equipment, such as motors, shifts, gears, etc., is important so that adequate maintenance and emergency protection can be afforded with a minimum stock of equipment and supplies. It is also important to have an adequate but not excessive inventory of spare parts and supplies, kept in good condition so that they can be easily obtained when and if required.

Proper supervision and administration of maintenance work is another important factor because in many cases this work must be performed at various locations and is not easily supervised. This means that when suitable maintenance procedures have been developed, and the proper maintenance force has been established, it is necessary that the performance of maintenance work be supervised and policed so that the procedures established will be carried out properly. This requires that suitable and adequate records and reports be available. Maintenance specifications and equipment records giving the pertinent details regarding each piece of equipment, and the spare parts carried in connection with it, are also necessary. Reports of day-to-day operation, such as force reports, daily maintenance schedules, and reports of work completed are likewise essential. Similarly, cost reports are required which show the maintenance cost in dollars, preferably allocated to the various pieces of equipment, divisions, departments, etc.

In this connection budgetary controls, if properly applied and administered, and kept up to date, are invaluable in controlling maintenance costs. Another factor which can be helpful in attaining low maintenance costs is the stimulus for effective work provided by suitable maintenance incentive applications, where such applications are feasible.

From an address by HOWARD BISHOP before The American Society of Mechanical Engineers.

● Our constant advance as a nation is due to our ability to increase our productivity, our output per man-hour of work. We have stepped this up from an average 27 cents' worth of goods and services turned out in an hour's work in 1850 to $1.15 in 1940 and to an expected $1.61 or more in 1960. We have done this mostly by substituting the machine for human sweat and animal power. By 1960 we shall be using 100 times as much mechanical energy per man-hour of work as we did in 1850.

—*Management Information* (Elliott Service Company)

MARKETING MANAGEMENT

An Evaluation of Business-Sponsored Teaching Aids

MANY companies and trade associations spend substantial sums of money every year on teaching aids which are distributed free or at nominal cost throughout the nation's schools. How well are these investments serving their purpose in terms of industry's public relations and educator's needs and preferences? Recently, an extensive survey was conducted to determine the characteristic viewpoints of business representatives, classroom teachers and school administrators on current practices in the production, distribution, uses, and evaluation of business-sponsored teaching aids. The results, based on responses from 88 business firms and 626 teachers and school administrators, are summarized here.

Nature and purposes of teaching aids. Teaching materials sponsored by business take a variety of forms. However, booklets, leaflets, and charts, in that order, are most frequently used.

Educators and business representatives agree that the purpose of business organizations in providing free teaching materials is to serve the needs of teachers and students as best they can within the limits of their own objective—which is the immediate or eventual sale of goods or services. Approximately half the organizations represented in this study believe their motive could be more simply expressed as that of fostering good will.

The vast majority of teachers and school administrators prefer a minimum of advertising in materials distributed for use in schools, and suggested that advertising be limited to the name of the sponsoring organization. More than six in every 10 sponsors agreed that the only advertising in free teaching aids should be the sponsor's name.

Preparation and production. Forty-six of the 88 business firms represented in this study have public relations departments separate from advertising departments, yet 50 of them look largely to their advertising departments for the preparation of their teaching aids. Thirteen firms prepare the materials independently of the advertising department. Twenty have school service divisions in the public relations department rather than in the advertising department. Five have completely independent education departments.

Of 70 firms reporting, 50 indicate that their employees engaged in preparation and production of teaching materials are trained or experienced as teachers. Forty-seven of the 88 business organizations also employ educators as consultants, a practice which is favored by the vast majority of the 626 educators represented in this study.

Business ranked the ten characteristics of a good teaching aid as follows: readable, factual, illustrated, current, colorful, experimentally tested, graded, documented, educator-edited, and expensive. Educators ranked the characteristics in the same order except that they placed "illustrated" ahead of "factual" and "educator-edited" ahead of "documented".

Educators prefer materials that are prepared for specific grade levels. Twenty-one sponsors prepare their teaching aids for particular grade or age levels. Twenty-six prepare them for divisional levels, such as elementary, intermediate, and so

on. Other sponsors prepare general material and leave grading to the teacher.

Availability and distribution. There is a "wealth" of free teaching materials available, but many teachers have only a vague notion where they are and how to get them. Business calls attention to the availability of free teaching aids mainly through listings in various guides, coupons in magazines, exhibits at teachers' conventions, and unsolicited copies for examination. Despite the assumption of many sponsors to the contrary, educators generally have no objection to receiving unsolicited sample copies of teaching aids.

In the majority of school systems, the classroom teacher decides which sponsored materials are to be requested. It is not necessary that sponsored materials be introduced to teachers only through school administrators, though teachers and school administrators are generally agreed that the principal and teacher should concur on materials to be used.

The 88 sponsors represented in this study average, together, approximately 75,000 requests for materials per week, or nearly 4,000,000 requests a year.

Sixty per cent of the educators sometimes order material without knowing whether it will be useful. Sponsors take such measures as they can to limit wasteful distribution. To minimize the disadvantages of "blind" ordering, 50 of 88 sponsors issue descriptive lists of their teaching aids. Approximately half the business firms and associations represented in this study place small charges on some of their material to restrict distribution. By and large, however, educators feel that, if business is to make aids available, it should do so on a no-charge basis.

More than half of the sponsors would like to increase their activities in the field of sponsored teaching materials, and educators would like to see them do so. The vast majority of educators are pleased with and grateful for sponsored materials.

Utilization of teaching materials. All but one of the 626 schools represented in this study use business-sponsored teaching aids to some extent. One in every four uses them regularly. Ninety-three per cent use them regularly or occasionally. Teachers generally are more enthusiastic about sponsored materials than are school administrators.

The types of teaching aids which most appeal to educators are in general those most used by business. Games and comic books have least appeal for educators and are the types least used by sponsors. The three types most preferred by educators are motion pictures, slidefilms, and booklets. The three types most used by educators are booklets, motion pictures and charts.

Students in colleges and in senior high schools, in that order, are the most important users of sponsored aids, in the opinion of most sponsors. Sponsored aids are more popular in senior high schools than in colleges, according to business. Nearly 50 per cent of all educators represented believe that pupils at junior high school level are more responsive to the use of business-sponsored teaching aids than are pupils at any other grade level.

Evaluation of sponsored materials. A majority of educators had critically examined free teaching materials, and 83 per cent of all educators surveyed stated that the content of sponsored material is generally reliable. Nearly 14 per cent believe that some sponsored material is only partly reliable. Less than 1 per cent consider the content generally unreliable.

Most sponsors reported that they have no way of checking the use to which their materials are put once they have been sent out. Thirty-one sponsors have representatives who attend teachers' conventions. Twenty-six have representatives who visit schools. Fifteen make periodic inquiries by mail regarding use of their materials. Educators stated that the best way for business to learn the usefulness of its materials is to have representatives visit the schools. Second most frequently recommended procedure is that business make inquiries by mail—sending brief, easy-to-execute report forms.

Association-sponsored, institutional-type teaching aids representing an entire industry are favored by 51.3 per cent of

educators when given a choice between that type and the type sponsored by the individual companies. The latter type was preferred by 33.7 per cent of the educators.

To keep sponsored materials current, 67 of 88 sponsors revise and reissue their aids fairly often. Thirty-nine sponsors reported that they abandon old material and produce new. Most sponsors revise the statistical data in their teaching aids as frequently as possible—usually every two years on the average.

Seventy of the 88 sponsors measure the success of their sponsored aids largely on the basis of the quantities of materials distributed to schools and the kind of letters they receive from teachers. Five have the effectiveness of their program and materials evaluated by a research agency. Six stated that their yardstick is sales.

Of 28 terms commonly employed by educators in explaining why aids produced by specified sponsors are best, the six most frequently used were, in order: colorful, advertising minimized, interesting, usable for teaching needs, authentic or reliable, and illustrated profusely.

Conclusions. As a result of preliminary conferences, the writer has reached this tentative conclusion: Regardless of how much gratitude is shown by one group for the other's interest in the matter of sponsored aids, there seems to be a basic weakness in the relationship between educators and business. It appears that educators do not adequately appreciate the problems of business in producing sponsored materials, and that business does not sufficiently understand the aims, methods, and needs of education.

According to educators, sponsors should visit schools as often as possible; should study textbooks and make sponsored materials truly supplementary for specific grades or courses; and should produce materials not only for upper grades and high school, which is most commonly done, but also for the early grades. Many sponsored aids are too complex for the busy teacher to figure out. Educators suggest that sponsored aids be simple, easy to use, and standardized as to size and shape for filing.

Because of the efforts of many progressive sponsors, teaching aids generally have achieved respectability. On the other hand, some business firms—proceeding without due regard for the aims, methods, and needs of education—have produced materials that reflect unfavorably on sponsorship as a whole, detract from the good intentions of the more enlightened sponsors, and serve to perpetuate some of the suspicion with which, a decade ago, educators viewed almost all materials supplied by business.

From *A Report About Business-Sponsored Teaching Aids.* By Thomas J. Sinclair. (F. A. Owen Publishing Company, Dansville, New York, 113 pages. Single copies free to business houses and advertising agencies.)

Premiums as Sales Builders

LAST year, U. S. advertisers poured out a billion-dollar flood of appliances, dishes, toys and assorted gadgets—all as added lures to get consumers to buy their particular brands. Now, with the competition for the housewife's dollar even sharper, the value of premiums handed out may well hit a new high. The climate is certainly right: Gift merchandise, practically non-existent during the war and scarce after it, is now back in good supply; and the budget-conscious housewife is not only shopping for quality at a price, but also for all the extras she can get.

A premium can be as prosaic as a kitchen knife, as decorative as a reproduction of an old master, as zany as a child's ring with self-launching jet plane. It can be used at almost all levels of U. S. business. Manufacturers give them to their own salesmen, to their jobbers' salesmen, to retailers and to the ultimate con-

sumer; on a different level, jobbers use them to stimulate retailers; and retailers themselves may run private deals—either merchandise or trading stamps—for their customers.

On the consumer level, premiums get their biggest play in the quick-turnover, savagely competitive packaged goods field. But they have also been used successfully in pushing heavy durable goods. One of the few heavily advertised areas in which they have not worked is proprietary remedies, probably because people buy a cold tablet or headache pill when they need it and then in hopes of a cure rather than for a bonus of a washcloth.

Women, who respond to offers of utilitarian household items and glamorous or sentimental trifles for personal adornment, are excellent targets for premiums. Just as important are children, who can be fanned into such a white heat for a novelty that they will drive their mothers into stores to buy the product giving it away. Men seem relatively immune.

Like contests, premiums are first and foremost a hypodermic for lagging sales. In some respects they are preferable to the more spectacular-sounding prize contests because, for one thing, the advertiser avoids the inevitable ill-will harbored by many contest losers. But premiums also have disadvantages. In most cases, they have to be stopped as well as started; the sponsor of the coupon-saving sort of premium may build up an unwieldy equity in unredeemed coupons; or he may be stuck with a warehouse full of duds if the offer fails to pull.

Another big but avoidable danger in premiums is putting too much faith in their power. No premium alone can halt a consistently declining sales curve—the product itself must be intrinsically worth its price. And premiums must be worth the consumer's effort. The sales force must be able to enthuse dealers, so they will stock an item heavily and give the offer prominent display. Perhaps most important of all—the company must be willing to advertise the premium offer extensively.

Premium operations fall into three slots: the traditional coupon-catalog; the self-liquidating or box-top-and-coin; and the direct, where the premium is part and parcel of the item purchased.

Of these, the oldest is the coupon-catalog, where a manufacturer prints on his wrappers a coupon redeemable for premiums listed in a catalog. The big advantage of the plan is that it not only attracts new customers but holds them, since they must keep on buying the manufacturer's products to reap a reward.

An obvious handicap of the scheme is that housewives may weary of saving enough coupons. One solution is to allow housewives to plunk down a cash payment toward merchandise. Another is to get makers of other, non-competitive products to participate in the plan, thus making the coupons available from a variety of products.

Far and away more spectacular than the coupon plan, is the self-liquidating offer, which requires proof-of-purchase (box-tops, wrappers, can bands, etc.) plus coins. This is the most widely used type of premium today. The reasons: its flexibility—offers can be easily started and just as easily dropped; its economics—the coins usually cover the cost of the product and mailing, leaving the advertiser to foot only overhead expenses such as media and sales.

Since the advertiser buys premiums in huge lots and sells them at wholesale cost, he can get and give good value. One rule of thumb on cost is that premiums should be worth three to four times what the customer pays. Like everything else, inflation has hit the field. Before the war, the dime was the big coin in box-top finance. Today the quarter is king and fifty-cent and dollar items are anything but rare.

The self-liquidator is a versatile instrument. It can be used to introduce a new product or to bolster an old; to pep up advertising or to needle a lethargic sales force; to widen distribution, better relations with dealers, boost off-season sales, clear stock off shelves and, highly important, to get the jump on competition.

First problem is to pick the premium. The ideal self-liquidator is rugged enough to hold up in the mails and is irresistible in appeal to its audience. That's a tall order. Some experts insist a premium should never be available in a retail store; others agree that the plain old kitchen knife is sure-fire. But on one point all agree. A premium which is in itself basically unfamiliar is taboo. An advertiser who makes that error has to sell two products, his own and the bonus.

Some companies have developed corporate characters well-enough known and liked that replicas can be marketed as premiums. One big advantage here, of course, is that the product gets as much play in the promotion as the premium itself. Quaker Oats, over a year ago, for instance, introduced an Aunt Jemima syrup pitcher. A vinyl Aunt Jemima doll (to be stuffed with rags) was also a big hit.

Fastest-acting of all premiums is a third type, the direct, which is distributed with a purchase. It may come attached to a package, enclosed in it, or be passed out by the retailer. In any case, the manufacturer bears the brunt of the premium costs. Direct premiums can also take the form of combination sales, in which two items (say a shaving soap and razor) are offered at a bargain price. Another variation is the purchase option, where, for instance, a coffee purchase gives the customer a chance to buy a coffee-maker at a special low price.

Tide, September 9, 1949, p. 33:8.

Variety Chains in New Stage of Development

THE variety store chains (some of which are still commonly known as the "five and ten," despite higher-bracket prices) are now entering a new phase in their development.

This new development stage will widen their area of competition with the big department-store and mail-order companies. Already the variety stores have cut sharply into the department-stores' first-floor sales of notions and miscellaneous type merchandise.

The chains' new programs include: (1) Development of the supermarket type of junior department stores in faster-growing population areas; (2) greater emphasis on "service" and comfort for customers; (3) widening of the range of goods offered for sale, and further expansion into higher-priced lines; and (4) abandonment of smaller stores in areas where growth prospects appear limited.

The new stores are stressing comfort and service—the traditional sales appeal offered by the department-store—in addition to price appeal. Air-conditioning, fluorescent lighting, streamlined shopping floors, modernized display methods, rest-rooms are being provided. In addition, items up to $15 in price are being offered—on a limited scale so far.

The chains are also seeking to stimulate demand for the new lines by offering special service facilities. Under a "Lay-Away Plan," for instance, a customer, by making a small down-payment, may have a desired higher-price article reserved, and obtain the article later after payment by instalments. In addition, free delivery is being offered at some stores on purchases totaling over $12 or $13.

—HERBERT MURPHY in *Barron's*

A Comprehensive Training Plan for Sales Personnel

RECOGNIZING the fact that conditions in the selling field have changed and that sales depend upon new and aggressive merchandising methods, A & M Karagheusian, Inc., has set up a new sales training plan. "Paid while learning" at the rate of $2,700 a year, new salesmen candidates participate in the following program inaugurated by the manufacturers of Gulistan Carpets.

1. *Production.* Trainees take a three-week course at the mills, during which time they work at the machines in overalls under the direction of experienced operators.

2. *Distribution.* The trainee is then assigned to a distributor's office to learn the relationship between manufacturer and distributor.

3. *Retail Point of View.* Trainees observe relationship between wholesaler and retailer by accompanying the distributor salesman.

4. *Actual Selling.* On the sales floor in a large department store, the trainee learns the consumer's point of view.

5. *Mechanical.* Two weeks are spent with a large carpet decorator. By measuring floors and assisting in the laying of carpets, the trainee becomes familiar with the problems of installation. By spending several days with a troubleshooter he also learns to evaluate complaints.

6. *Departmental Setup.* Time is spent by the trainee in such departments as advertising, styling, contract, order and statistical. In the manufacturers' showrooms he begins to meet buyers, develop confidence and poise.

7. *Field Trips.* The trainee accompanies salesmen on field trips. Contact with retailers familiarizes him with their problems.

8. *Theory.* Reference books on advertising and selling are available to the trainee. His solutions to situations presented are discussed in open groups.

9. *Assignment.* Finally, the trainee, with the title of junior salesman, is sent to a company branch office. He remains there until an opening occurs in a position of advanced responsibility for which he is qualified.

10. *Refresher Courses for Advanced Salesmen.* Contemplated for the older salesmen at intervals is a condensed course, including trips to the mill, etc.

—*National Sales Executives Digest, Vol. 1, No. 1*

How Well Does Advertising Do Its Job?

ADVERTISING reaches and is read with interest by the wage earner families of this country, according to a recent survey of McFadden Publications' panel of representative wage earners throughout the United States. More than 90 per cent of wage earners and their wives say they look at ads in both magazines and newspapers. Radio commercials catch the ear of 93.6 per cent of the men, 87.8 per cent of the wives. They count on advertising for helpful suggestions, new ideas, information, news of new products and price information. Nine out of ten state that advertising generally gives them information which they want. Almost all of them at times look in the stores for something which they have seen advertised, and more than half of them say that they frequently do so. Advertised products are more dependable and of better quality as a rule, in their opinion.

They would not want advertising removed from the various media, and particularly not from magazines and newspapers. They state that advertising in the magazines gives them the best information; newspapers rank next.

But criticisms of advertising do exist. Asked whether there were any types of advertising they objected to, 47.7 per cent of the wives said yes. More than a third of these object to many of the types of products which are advertised. Equally as many object to singing commercials. Advertisers may be shocked to know that nearly 10 per cent of all the wives surveyed think that their advertising is boring because it is repetitious. They would welcome new and interesting ideas; and better than one in 12 feel that there is too much misrepresentation in advertising today.

Further, more than half the husbands and wives feel that advertising adds to the cost of the product. This attitude is perhaps indicative of the degree to which business has failed to sell itself and its methods to the public at large.

A Sales Compensation Plan to Stimulate Sales of Profitable Products

JUST as we place foremen, department heads, and individuals on incentives for "beating" the budget or standard, so should we place the salesmen on an incentive which will accomplish the most for himself and the company. A successful salesman, from the individual standpoint, is one who makes the most in commissions. However, from the company standpoint, a successful salesman is one who sells the most plant capacity in terms of sales which net the most in gross profit per sales dollar. It is obvious that the sales compensation plan must be coordinated with these two factors if it is to be successful in operation. Let us examine the ordinary sales compensation plan in force today, then compare it with a sales compensation plan geared to accomplish these objectives.

The XYZ Company makes three classifications of products known as Products A, B, and C. As indicated below, a straight 10 per cent commission on sales value of items sold is paid in each case. We might have results such as are indicated in Table 1.

In analyzing this type of operation it is easy to understand why Product A sold so many units. First, there is no special incentive for the salesman to sell Products B or C as the commission rate is the same for all three products and, second, Product A is priced at a low gross profit, either because of competition or because it is a marginal item which must be carried so that the line is complete. It may also be an easier item to sell than the other items. However, it is a low profit producer and does not contribute much toward keeping a plant working at or near capacity.

Let us change our remuneration plan for the salesman—without changing sales dollars—so that emphasis is placed on gross profit dollars, production hours, and higher commissions. Instead of paying a straight 10 per cent sales commission on the sales dollar, the plan may be adjusted so that attention is directed to the products which are most desirable to sell from a gross profit and capacity standpoint, with an additional premium for volume on items selected for these purposes. In this case, Product A is a marginal product necessary only to round out the line and some sales will be made without any sales effort. The commission on this item may well be reduced from 10 per cent to 5 per cent. Product B is highly desirable because it produces the most gross profit and makes more work for the plant. The commission on this may be increased from 10 per cent to 12 per cent for the first 25,000 units sold,

	Product			
	A	B	C	Total
Units sold	50M	20M	15M	
Price	$4	$8.30	$6	
Sales	$200,000	$166,000	$90,000	$456,000
Cost of sales at standard	150,000	96,000	54,000	$300,000
Gross profit				
Amount	$ 50,000	$ 70,000	$36,000	$156,000
Rate	25%	42%	40%	
Unit	$1	$3.50	$2.40	
Commissions				
Amount	$ 20,000	$ 16,600	$ 9,000	$ 45,600
Rate	10%	10%	10%	
Gross profit after commissions	$ 30,000	$ 53,400	$27,000	$110,400
Capacity utilized				
Unit hours	.4	1.3	.8	
Total hours	20M	26M	12M	58M

Table 1

Table 2

	Product A	Product B	Product C	Total
Units sold	21¾M	30M	20M	
Price	$4	$8.30	$6	
Sales	$87,000	$249,000	$120,000	$456,000
Cost of sales at standard	62,250	144,000	72,000	281,250
Gross profit				
Amount	$21,750	$105,000	$ 48,000	$174,750
Rate	25%	42%	40%	
Unit	$1	$3.50	$2.40	
Commissions				
Amount	$ 4,350	$ 31,125	$ 15,000	$ 50,475
Rate	5%	12% & 15%	12% & 14%	
Gross profit after commissions	$17,400	$ 73,875	$ 33,000	$124,275
Capacity utilized				
Unit hours	.4	1.3	.8	
Total hours	8.7M	39M	16M	63.7M

Table 3

	Original plan		Revised plan		Per cent increase
Sales	$456,000	100.0%	$456,000	100.0%	
Cost of sales	300,000	65.8	281,250	61.7	
Gross profit before commissions	$156,000	34.2%	$174,750	38.3%	12.0%
Commissions	45,600	10.0	50,475	11.1	11.
Gross profit after commissions	$110,400	24.2%	$124,275	27.2%	11.3%
Plant Capacity Sold	58,000 Hours		63,700 Hours		11%

and for all sales over 25,000 units a 15 per cent commission may be paid. Product C is close to the same class as Product B but not quite as good. However, the basic commission should be adjusted upward to 12 per cent for the first 15,000 units and 14 for all sales over this quantity.

With such a plan as this in effect and total sales dollar volume remaining unchanged at $456,000, our unit sales might be changed as indicated in Table 2 above.

A comparative profit and loss statement drawn from the above figures for the original and revised plans clearly shows the effect of the change—see Table 3.

Careful analysis reveals that gross profits have increased 11.3 per cent over the previous gross profit, an increase equal to approximately 3 per cent of sales dollars and effecting a like increase in net profit before federal income taxes. Also, commissions paid have increased 11 per cent and plant capacity or total hours of production increased a like amount.

By K. R. Rickey. *NACA Bulletin*, December, 1949, Part I, p. 444:3.

● IT IS ESTIMATED THAT IN 1948, $4,800,000,000 was spent on all forms of advertising in this country—or about $30 for every man, woman and child. Nevertheless, this represented only 1.8 per cent of our gross national income and about 1 per cent of the total national volume of all sales transactions. Nine firms spent more than $10,000,000 and 125 companies more than $1,000,000 each. But a major part of the expenditure was made by the many smaller advertisers—retail stores, specialty shops, realtors, auto dealers, the rest of the 3,000,000 business enterprises, and even by individuals.

—*Advertising News Letter* (U. S. Chamber of Commerce) 12/49

Organizational Role of the "Market Manager"

THE old concept of a marketing organization was one headed up by a sales manager —a hearty, hale fellow well-met of the back-slapping school—who was supposed to go out and sell whatever engineering designed and manufacturing made, pretty much without regard to the market or the customer's needs or wants. His role in product planning and market determination was a confusing and ill-defined one, to say the least.

But a new concept of market management is emerging which will do a far better job of harnessing the manpower in your organization to meet today's sales problems. Organizationally, it is set up as follows:

1. All marketing functions are gathered under one head.
2. The boss-marketing man is the Marketing Manager, a top executive who is fundamentally a planner rather than the back-slapping sales manager of prewar vintage.
3. No longer is product planning left to the engineers. Product planning under this scheme is the marketing man's job. This area, formerly undefined as between Engineering, Manufacturing and Marketing, is now very carefully mapped out and the responsibility clearly established.
4. The Marketing Manager sets the production schedules. In the old days manufacturing made what it thought the market would take, and the Sales Manager was supposed to sell it. Sometimes he didn't, and the company was left holding the bag with too many parts or too much finished goods. Finished Goods Inventories are, therefore, definitely the responsibility of the Marketing department.
5. Market research is under the Marketing Manager, as well as Advertising and Merchandising.
6. The Sales Manager reports direct to the Marketing Manager. *There is no conflict here.* The Sales Manager runs the field organization.
7. Product Service and Order Handling and Service, likewise, come under the Marketing Manager.
8. The Marketing Manager sets the sales budget. Great emphasis is placed on the ability of the Marketing department to plan in advance each year's operation.

You may well say that the charter for the Marketing Manager just about gives him 75 per cent of the management of the business. Well—you are correct. If selling isn't the most important thing in the business today, what is?

—From an address by Harold G. Cutright before the New York Industrial Advertisers Association.

Tips for Trimming Your Shipping Costs

STUDY each packaging problem to insure putting the maximum of material into minimum space . . . Consider shipping your product partially disassembled if this will reduce the size of the package . . . Engineer all packing cases, crates and boxes to utilize a minimum of material and labor consistent with adequate protection . . . Ship palletized loads where possible . . . Where containers must be kept right side up, don't rely on stencilled signs—design the box so it will not stand on its top . . . Standardize containers as far as possible and use machine-made shooks. They are cheaper than individually made boxes . . . Attach uncrating instructions to the outside of the box, clearly marked, and in a place where they will not be torn off. It's no use putting them inside where they can't be found until after the damage has been done . . . Finely finished parts require special protection against corrosion in transit. Make sure that wrapping paper is acid-free and that packages are sealed against moisture. Or try a vapor-type inhibitor, or moisture-absorbent chemicals.

Study truck routes carefully with due regard for low bridges, weight-restricted roads and bridges, and other road hazards . . . With extremely large items whose bulk may necessitate a complicated and roundabout shipping route, consider doing final assembly at the customer's plant . . .

Consider climatic conditions through which package must pass and prepare accordingly. Export packages require greater protection than domestic . . . Indicate sling positions, or provide suitable hooks or eyebolts . . . Brace contents against sides of boxes to prevent shifting, but be sure the supports are against solid material that is not easily bent or broken . . . Mark consignee's name and address clearly and indelibly, and don't forget the purchase order number and number of packages.

—*American Machinist* 10/6/49

Tough Sledding Ahead in Foreign Trade

THE men who are trying to open more foreign markets for U. S. business men are fighting a losing battle. Every time State Department experts hack through one trade wall, they find a maze of others. In the coming months, American exporters will find it harder than ever to sell their goods in the world's lush but tightly chaperoned markets.

Says one official: "They'll bump up against more red tape, more restrictions against American goods, and even higher tariffs on imports from the U. S."

Seventy-seven of the world's 85 principal trading countries tell their merchants how much trading they can do with other nations. They do this by two methods: The governments require import licenses, which means their business men must get official permission to bring goods into their own country. Or the governments control foreign exchange. This means a foreigner who wants to buy goods in the U. S. must ask his government to change his currency into dollars. European, Latin American, and Asiatic governments are busy tightening these controls and adding new ones.

"They're still running short of dollars," explains one trade expert. "The shorter they get, the tighter they make restrictions on goods from America." Officials here expect a new dollar pinch in foreign countries if U. S. aid declines.

Many new barriers to U. S. exporters announced in 1949 by foreign nations are now in effect.

Of the new foreign restrictions on trade, U. S. experts fear most the "barter-type" agreements which have sprung up like mushrooms in the past year. These barter trade arrangements are usually between two countries. Each nation pledges preferred treatment to some goods the other wants to sell. Each promises to take a certain amount of the other's commodities or manufactures. Both guarantee to issue export licenses and the foreign currency necessary for the trade. Goods from other countries, such as the U. S., are admitted only if one treaty member doesn't supply as much of a particular item as the other member country wants.

"That's a much more effective barrier to U. S. exports than tariffs ever were," says one U. S. analyst. He explains that an American exporter would have little chance to sell similar wares to these countries while this swapping agreement is in effect. An Austrian, for instance, who wanted to buy cotton from the U. S. might be told he'd have to buy from India.

—*The Wall Street Journal* 10/31/49

Discount Battle

HIGH on department-store executives' list of pet hates is the manufacturer who used to grant a discount for paying bills promptly—and doesn't any more.

Cash discounts flourished back in the days before the war. Then the manufacturers got into the driver's seat, and one by one, began to cut back cash discounts and pocket the difference as a little extra margin.

Recently the National Retail Dry Goods Association published its second annual discount survey. The results show that in many lines merchants are still a long way from the prewar discount structure.

Here are some of the departments that have suffered most from the loss of cash discounts since 1939 (N.R.D.G.A. calculated the discounts as a percentage of the purchases by each department):

Silks, velvets, and synthetics. In 1939, discounts amounted to 6.86 per cent of purchases; now they're 2.35 per cent.

Woolen dress goods: Prewar discount was 2.8 per cent; discount now is 0.78 per cent.

Women's hosiery: From 1.68 per cent prewar, to 0.15 per cent now.

Men's clothing: Prewar discount, 5.38 per cent, current rate, 1.96 per cent.

Men's and boys' shoes: From 4.19 per cent to 2.6 per cent.

In a few cases, however, today's discounts are higher than they were in 1939. For example, the discount on women's and children's gloves jumped from 2.96 per cent to 3.86 per cent. Three other categories—rugs and carpeting, oriental rugs, and linoleum—have had discount increases since 1939 ranging from 0.08 per cent to 0.30 per cent.

These figures, of course, don't mean that all manufacturers of a certain product offer it to department stores on the same discount terms. N.R.D.G.A.'s figures represent the average discount granted by manufacturers. Actually, discounts on one particular line, say, blankets, range from zero to 10 per cent with varying periods of time to pay.

—*Business Week* 8/13/49

20 Ways to Broaden Your Market

1. *Put your salesmen on the lookout for new uses.* A salesman sold a Johnson wax polisher to a rancher for use in grooming saddle horses. Publicity in the Johnson house organ told other salesmen about the new use.

2. *Make your market bi-sexual.* If users have in the past been only men or women, try selling to the opposite sex. Van Camp Sea Food Co. found out that its advertising, directed entirely at women, had the fair sex sold on its canned tuna fish. But the fact that most men were not interested restricted the breadth of the market. Since 1947 the company has been advertising to friend husband, because men are doing an increasing share of the family's food buying.

3. *Add a miniature package*—suitable for carrying in a purse or small suitcase when travelling. Example of a good seller in this class is the miniature Kleenex pack brought out by International Cellucotton Products Co.

4. *Add seasonal items*—in order to fill in the low spots in your present sales curve. Philco Corp. purchased the Conservador refrigerator from Fairbanks, Morse & Co. in 1939 for this purpose. Philco's radio business took a header every summer, so it added an electric refrigerator line. Result—a broadening of the market to a year-round basis.

5. *Go after the big-family audience.* Large families consume more as a whole and individually. The C. F. Mueller Co., macaroni, checked its mail response to various time schedules on the radio in order to locate the time when women with big families were listening. It turned out to be around noon, before they went out to shop and after the housework was done. So Mueller settled on a 12:15 newscast.

6. *Modify the product to agree with regional buying preferences.* General Foods couldn't sell Maxwell House coffee in New Orleans. In order to crack that market, G-F had to absorb a local outfit and distribute its blend (high in chicory) in that market.

7. *Modify the promotion to agree with local traditions.* A New England clock maker couldn't sell its Yankee model alarm clock south of the Mason-Dixon line. When the name was changed to Dixie Bell, it started moving.

8. *Develop seasonal models*—one for winter, one for spring, one for summer, etc. Clothing manufacturers are in the lead here. Men's suits have been built into highly seasonal items, yet men wore the same weight suit year-round until quite recently.

9. *Make connoisseurs of your customers.* Develop them into specialists in the field where your product is concerned. The wine merchants have for years promoted the idea of serving the right wine, at the right time, in the right atmosphere and with the right food. Make your customers want to have a variety of your item on hand—three bottles of wine in place of one.

10. *Blitz new geographic areas.* Concentrate your power on one new territory at a time. This is one secret of the Glass Wax success story. In July, 1947, this unknown product was brought into Chicago by a staff of one salesman and a girl assistant — plus full-page editorial style ads in the big Chicago dailies, reprints of the banner-headline ads for store posting, and a flurry of radio spots. In 10 weeks 44 per cent of Chicago families had bought their first can of Glass Wax. The same technique opened 131 other markets in two months.

11. *Put it in a vending machine.* About $500 million worth of goods a year is sold through vending machines. The total may reach $2 billions in a few years.

12. *Get 'em while they're young.* Advertise, promote, sample in the college and high school market. Benex shaving cream increased sales 50 per cent last year in the college market by enlisting the help of marketing students—and paying them for their effort—in getting displays located in college town stores. The market is growing too. There will be 10,-

000,000 more students in 1960 than there are today.

13. *Sell the stockholders.* Many companies have promoted sales within the pre-interested stockholder audience by sending out samples of new products and by plugging company brands as good buys in stockholder reports.

14. *Get extra gift business by selling via a gift certificate.* The gift certificate idea, which has been highly successful in the hat field, can be used to promote gift sales of many items which buyers like to give but hesitate to purchase because the size, color or style might not be right.

15. *Advertise other products when you bill.* Worthington Pump & Machinery Corp. tried inserting ads for other products in invoice envelopes. Extra sales ran as high as 20 per cent of billing.

16. *Remember that home handymen and handywomen are on the increase.* Are you reaching this market with do-it-yourself kits for amateur repairmen, decorators, etc.?

17. *Add accessories to the line.* Vacuum cleaner manufacturers have added a lot of business by expanding the accessories (paint sprayers, de-mothers, etc.) sold with cleaners. The Dazey line of can openers, ice crushers, knife sharpeners, etc., manufactured by Dazey Corp., St. Louis, is built for accessory selling. All units are designed to fit one wall bracket. The line is related to the bracket on permanent display fixtures, and customers are lured back for related sales by that means.

18. *Bring out a multiple-item package.* In the food field, complete dinners are a great success; spaghetti dinner, chop suey dinners, etc. So are the multiple-item packages that offer the consumer a variety as in the cold cereal variety packs.

19. *Convert acceptance in public places to private consumption.* Coca-cola was first sold at soda fountains. After consumer acceptance was secured, the market was broadened into homes. Silex coffee makers traveled the same road.

20. *Throw a party.* Offer free goods to the housewife for allowing your salesman to throw a party in her house for her friends—followed by a commercial message about the product. Many a pot and pan manufacturer has broadened his market in this way.

From "58 Ways to Broaden Your Market," *Eyes Off the Ceiling,* Grey Advertising Agency, Inc., New York, N. Y.

PACKAGING

What Management Expects of Packaging

Recently, when I was asked the question, "What does management expect of packaging?" I felt somewhat like the little boy who was asked by his teacher to describe the universe in 50 words or less. Management, I'm sure, expects a great deal of packaging. Exactly what it expects, however, depends upon what business it is managing.

Probably it is impossible for one man —or even a group of men—to describe the perfect package, much less develop it. Recently, however, Dr. L. V. Burton, executive director of the Packaging Institute, surveyed a large number of executives, asking them to name the three most important results that improved packaging ought to accomplish for their companies and to name three of their particular "gripes" about packaging. On the

basis of that survey, the following list has been assembled, which is a composite of what these executives, at least, believed to be the perfect package.

What are the attributes of this perfect package?

1. It is, first, a package that *increases sales* because:

a. It catches and holds the prospective buyer's eye.

b. It builds, by its appearance and convenience features, complete consumer acceptance.

c. It looks like good value.

d. It wins top display position in retail outlets and vigorous sales promotion and direct sales effort from dealers.

e. Its labels give consumers the exact information they need in clear, convenient form.

f. It eliminates consumer complaints of faulty packages.

g. It stimulates enthusiasm and effort from the sales force.

h. It looks like a fast seller.

i. It minimizes the clerk's selling time.

j. It shows its contents to their best possible advantage.

k. It gives its product strong family resemblance to other products made by its manufacturer and enhances brand acceptance and prestige.

2. This perfect package facilitates distribution because:

a. It lowers costs by eliminating "spoilage," railroad claims and carrier complaints —by eliminating breakage and shrinkage.

b. Its physical size and mechanical design reduce the cost of handling, shipping and storing.

3. The perfect package facilitates production because:

a. It is made of perfect and uniform materials.

b. It slashes manufacturing costs by eliminating material waste and breakage during the packaging operation.

c. It is formed with a minimum of labor on high-speed machines, made by a manufacturer who has a dynamic attitude, who cooperates with the user completely to eliminate all problems.

d. It is fabricated and filled by machines that are delivered promptly, are serviced by well-trained personnel and are backed by a good parts replacement service.

e. It eliminates the need for large inventories of packaging materials and saves storage space.

f. If, like a can or glass container, it comes complete from outside companies, its suppliers are as enthusiastic about small orders as they are about large orders. They also understand the user's exact requirements and deliver the package promptly.

In addition to these positive attributes, there are certain characteristics which the perfect package, its manufacture and its use do *not* have. The following are based on the "gripes" voiced by executives who participated in the survey:

1. There is never a delay between the conception of this perfect package and its appearance in retail outlets.

2. Suppliers who contribute to this package are never lax in adhering to specifications.

3. Since the machines for making and filling the package are perfect, it is never necessary to sacrifice quality of product to meet requirements of the packaging operation.

4. It is not necessary to "clutter-up" this package with useless information required by conflicting, non-uniform national and local regulations.

5. Color reproduction on this package is never faulty.

6. The package is never the wrong shape or size for its purpose or for any of the operations of which it is a part—filling, packing for pallet handling, storage in the plant, display, storage in the home or other point of ultimate use.

In describing this supposedly perfect package, I have told you, in effect, what management hopes for. Now, more practically, what does management expect?

Basically, management hopes for and expects the same things—the difference is one of degree. Instead of demanding a package that costs *nothing,* for example, top executives expect a package that will cost as little as possible and still do its job effectively. They realize they can't have their packaging served sizzling hot, so they are willing to compromise, to accept some parts that are lukewarm, some that are even cold. All they ask is that the over-all performance temperature be reasonably high.

In a sentence, this means that *management expects packaging to help maintain or increase profits.*

From an address by ARTHUR D. HYDE before the Packaging Institute.

Proper Spending—The Best Way to Cut Packaging Costs

PACKAGE costs cannot be considered as an abstract item—an "extra." We know that they have become a necessity as surely as we know that today's consumer will not buy his goods out of a cracker barrel. Therefore, if we are to evaluate packaging costs, they must be considered in relationship to the sales they produce, the public relations job they develop, and the over-all efficiency they afford.

There is a minimum basic packaging cost in every industry consistent with the needs of protection and consumer convenience. This minimum, however, is a variable; it becomes greater or smaller in direct proportion to the number of units involved. Therefore, anything that can be done with the basic package which will increase sales will also decrease unit costs.

Saving by blindly reducing costs can be very expensive in terms of diminished sales and good will. To me, the most important question concerns the efficiency of the packaging dollars spent. Thinking should be along these lines:

1. Can we spend the same number of dollars and yet secure added sales and increased volume? (If that can be done, it will naturally reduce costs.)

2. Are our packaging dollars giving complete coverage and full value?

3. Can anything be done to make the package more effective or a greater sales stimulant?

Any survey of existing packages, if tested by the above questions, clearly shows a wide variance in the ratio of effectiveness to dollars spent. In many cases I would say that companies are receiving as little as 10 per cent actual value. Their package is merely a carrying agent, whereas it should be a powerful medium of sales and advertising.

Take the case of vignettes alone. Vignettes or package illustrations are supposed to stimulate the urge to buy in many cases by heightening appetite appeal, but the fact is that some illustrations, particularly of food products, are so poorly reproduced or show the product so unappealingly that they discourage sales.

Many packages that have been redesigned within the past 10 years should be reviewed and checked to see whether the packaging costs have proved good investments. Consideration should be given to today's distribution methods, new advertising trends, and new mediums such as television. If your package does not reproduce well in black and white advertising, small reduction replicas, or in television so that there is instant recognition and tie-in between your packaged product and your advertising—you are not getting full value for your money. A change to better design with strong brand identification, good memory value and consumer appeal will make your advertising more effective, create greater sales volume, and thereby cut your costs.

In reviewing most packages on the market it is all too obvious that attention to design has been concentrated on the face, or front panel, with almost total disregard for the balance of the package. In my estimation, this reduces the selling effectiveness of the package by at least 50 per cent. It has been my contention for years that the back, two side panels and top of a package require the same careful planning as the front panel. In planning the complete package, too few realize that these panels on the average one-pound package represent an area approximately equal to one column of newspaper advertising. I doubt that any company would buy and use one column of advertising space without very carefully planning the layout and copy. Yet its equivalent, which is available at no cost, is generally treated as a stepchild instead of used as an effective medium for reducing costs.

By JIM NASH, *Printer's Ink*, October 21, 1949, p. 7:1.

FINANCIAL MANAGEMENT

Centralized vs. Decentralized Accounting Organization—Deciding Which to Use

MANY companies are at one time or another faced with the problem of choosing between one headquarters set of accounts and the use of decentralized, autonomous accounts. What factors must be considered in order to arrive at a practical decision?

One extreme is the highly centralized structure in which all records are maintained in the head office. There is one set of books consisting of control accounts supported by appropriate subsidiary records. The accounting task at factory or branch may consist merely of accumulating original evidences of transactions (invoices, time cards, etc.) and transmitting them to the head office. The only real account maintained locally is some form of imprest cash fund and there probably is a perpetual inventory record of raw materials and supplies with, perhaps, a record of finished product in quantities only. No nominal accounts are maintained at the several locations.

At the other extreme is complete decentralization, with each plant, branch or division operated in all respects as though it were a separate company.

Between these two extremes, of course, we observe many variations and combinations, some of which have been devised with considerable care and others which merely "grew like Topsy."

The factors which affect the decision as to whether the accounting structure should be centralized or decentralized generally fall into five categories: (1) management's thinking in connection with divisional responsibility; (2) size of the respective operating units; (3) geographical relation of divisions to central headquarters; (4) availability of information to operating personnel and (5) efficient and economical operation of accounting work. In the following discussion the term "division" frequently will be used in a generic sense to include not only major segments of the business but also such customary designations as plant, district, area and branch.

Management's Attitude Toward Divisional Responsibility. With the growth of business enterprises to cover several distinct products or the integration of several steps in the production of one end product, some managements concluded that to effectively administer such diversified activity it was essential to establish a group of autonomous operating units, each under a manager with complete authority over all aspects of operations, including accounting. Under this concept the central administrative staff deals only with major matters of over-all policy and company-wide concern. The divisional manager is judged solely on the basis of final results of his operations.

In some cases, however, the purported complete responsibility of the divisional manager is subject to more or less modification by top management. Thus the divisional manager in some degree is not "running his own business;" rather, his performance is appraised in some detail in relation to the operating conditions established by his superiors.

Except in the largest enterprises where a divisional manager in fact stands in the position equivalent in all respects to that of a corporation president, there is no controlling management principle which requires that all accounting activities be

performed within the divisional organization. Decentralization of some accounting work at divisional locations usually will be found desirable and practicable.

Size of Operating Units. There will at times be situations where the several operating units and the related accounting activities are of such size that all or most accounting operations can be carried out efficiently on a decentralized basis. Factors to be considered would be segregation of duties for effective internal control, utilization of mechanical bookkeeping equipment, availability of qualified personnel, and availability of office space.

Also the number and nature of accounting questions to be resolved continuously may be such as to indicate the desirability of decentralization. The added work incidental to consolidation of the divisional financial statements may be compensated for by simplified day-to-day accounting work.

Geographical Relationships. There is probably a close relationship between size of the operation and its distance from the home office in their effect on the desirability of decentralized accounting. The accounting for a small or medium-sized operation within overnight mail or travel distance and relatively inexpensive telephone distance might be handled most effectively on a centralized basis, whereas the same operation on the opposite coast might require complete local accounting to minimize delay and other complications. In fact, if several divisions serve many of the same customers, centralization of accounts receivable may be desirable both for credit management and bookkeeping purposes. In such cases, however, decentralized billing might be indicated.

Availability of Information. This subject may be considered from two viewpoints. First, which accounting data should be maintained on a divisional basis regardless of where the accounting work is done? Second, having decided on the matters concerning which the divisional manager should be informed, where is the accounting work to be performed?

As to the first question, top management and the divisional managers require to be currently informed on inventory positions. In manufacturing operations, divisional analyses in connection with the fixed asset accounts are desirable. The amount of detail required currently by the division manager will depend on the type of operation—i.e., whether or not there is considerable movement within the fixed-asset group. Whether or not accounts receivable should be recorded on a divisional basis probably depends on credit policies. If initial credit approval and subsequent collection activities take place under divisional direction, there is need for divisional recording of accounts receivable; if this work is under central office control, divisional classification of the accounts would not seem to provide information of value to management at any level.

As to all other balance-sheet accounts, there appears to be little, if any, value from the standpoint of availability of desirable management information in divisional segregation, either physically or on centrally maintained records. There is one management yardstick which may be deemed to justify accounting segregation of all balance-sheet accounts—namely, return on invested capital.

Some business men place considerable stress on return on invested capital by divisions, and on this basis alone they require complete accounting segregation of balance-sheet as well as income accounts.

The author recognizes the value of such a yardstick but questions the necessity of developing it as part of the current accounting routine. It is the type of data which can be prepared statistically once or twice a year with equal benefit to management and, possibly, considerable economy in the cost of accounting work. For current control equally good results may be realized by observing the behavior of such items as inventories, payrolls, manufacturing and selling expenses in relation to divisional activity.

In connection with revenue, cost and expense accounts, there is assuredly the requirement for segregation not only as

regards major segments of operation but also lower levels of product, plant, district, and branch. Whether the data can be submitted in a satisfactory manner to the various levels of management by way of periodic reports, or whether for adequate and timely information the accounts should be maintained at the source of transactions, will vary in individual cases. Size and geography will be factors, as will the nature of the data; that is, necessity (or desirability) of prompt and frequent information at the point of operational control.

At this point it may be appropriate to mention another management concept which may have important bearing on the methods of keeping accounts—i.e., the breakdown of the entire statement of income, including general administrative expenses, into divisional units of varying operational levels. Company-wide general expenses are allocated to products; profits may be determined by plants.

The "Expense-Pool" Concept. Opposed to this type of accounting thought we find a concept under which only those selling, administrative, and general expenses which can be associated directly with a division of the business are thus allocated or distributed. There results a general expense pool to be absorbed by profits before such general expenses. The effectiveness of each divisional operation is measured not by its imputed net profit but by its contribution to the absorption of the pool of general expenses. Those who favor this type of thinking may also feel that a manufacturing plant as such cannot make a profit—it can only keep down costs. This concept can be carried out most effectively under standard cost procedures, inasmuch as the factory performance is appraised entirely on the basis of variations from standards.

The question of how far to break down profit figures would justify a paper devoted to that subject alone. It is the intention here merely to call attention to it as a factor which may affect the accounting structure, its organization and administration, from the standpoint of availability of information.

Economical Operation of Accounting Work. After the effect of the foregoing factors has been determined, the choice should be based on the most efficient and economical methods of handling the several accounts. An informed solution to the problem will usually require a survey in some detail of the existing accounting methods and a critical review of the methods of accumulating, classifying and recording the data with respect to each account.

Such a survey should be related to account classification rather than to accounting locations. The methods at any location may be appropriate to its own size and circumstance, but a given account classification may lend itself to more effective treatment if the work on that account is handled in one location or at least in fewer locations. It is necessary to be alert to the danger of duplication of accounting work by centralization because division management may continue local records rather than rely on periodic reports.

For example, it may be most advantageous to perform billing at the point of shipment, but it may be more efficient to maintain the related accounts receivable records at a central location due to possibility of using mechanized equipment, greater ease of identifying customers' remittances, simplification of collection methods, and like considerations. Similarly, the sales analysis may be prepared more readily at a central location, though in that case care should be taken that the work is not duplicated at the divisional location in order to obtain sales reports more rapidly.

By A. R. Kassander. *The Journal of Accountancy,* August, 1949, p. 138:6.

● No matter what your job title is, you can contact, influence, and lead only a certain number of other human beings—the ones you see and work with. As you go along and pass to other groups in an organization, you leave something of yourself behind—and if what you leave is good enough, it makes your next job easier and improves the performance of your whole organization.

—Charles E. Wilson in *Brief* (Apparatus Department, General Electric Company)

How Advertising Increases Securities Values*

THE basic premise of this article is that the advertising dollar spent for product advertising can produce, in addition to income, long-term capital gains without further cost to the enterprise.

An effective advertising record is widely regarded as concrete evidence of a company's progressive management policies. This view is widely held among investors, commercial bankers, and investment bankers. Hard-hitting advertising, merchandising and sales promotion give first-rate evidence of the company's determination not only to preserve its position in its industry but to improve it.

Investors do consider the prestige and brand preference which an enterprise develops through advertising. Many investors today practically disregard the tangible assets of an enterprise and give the balance sheet little or no attention. Their attention is on the income statement. And they pay as high a ratio or even higher ratio for earnings developed largely from advertising as for earnings produced largely from physical assets.

Recently *Business Week* reported on a survey question posed to the partners of a number of prominent New York underwriting and investment firms. It was worded as follows: "Do you feel that such a program of advertising by a company gives its securities an advantage of market stability and demand over those of lesser known companies?"

Business Week discovered that "one of the major influences in creating and sustaining the value of a company's securities is . . . advertising."

It is clear that when the investment banker can show the retail dealer securities of an enterprise which is well known through a long and successful advertising record, the securities are likely to be easier for the retailer to distribute. The basic principles of distributing securities are in no wise different from those in the merchandising of cigarettes or any other item of commerce.

The portfolios of the 87 leading open-end investment trust funds are largely composed of securities of enterprises which are so well-known through their years of heavy advertising that their names are household words. These funds using securities largely of well-advertised enterprises have received over $1 billion of public support since 1940 and now have over $1.6 billion invested in them. Even in the generally adverse market years of 1947 and 1948 these funds using their well-advertised vehicles attracted $178 million and $147 million respectively.

This financial support in the public securities markets has undoubtedly contributed materially to the comparative price stability of many of these stocks and has protected probably billions of dollars of equity values held by stockholders of these well-advertised companies. Prices may not have declined needlessly under small volume of liquidation.

Since the end of World War II business enterprises have been forced to make greatly increased investment in machinery and plant to give an individual worker a job. The need for additional capital continues to grow increasingly severe. As a matter of realistic financial management every enterprise needs to keep open the path to the financial market and its credit there must be secure. This is true whether the company remains closed or has had public financing.

In short, more of the capital must come from the public. As more and more companies have sought public financing—some unsuccessfully—it has become increasingly apparent that an enterprise must win public acceptance in advance of its solicitation of the public for capital. No more effective means exists to win public acceptance than good advertising and the integrity that good advertising implies.

The American Telephone & Telegraph Company is an excellent example of a company that believes in long-term heavy use of advertising. The management of this universally respected enterprise seems to feel that its advertising job is never completed.

The judgment of the management in its huge advertising investment to secure public acceptance is well justified by the results. In the difficult market of the Fall of 1947, for example, the company was able to borrow the great sum of $360 million from its own stockholders at a very low rate of interest—and without even using an investment underwriting house.

The value of having a well established advertising trade-mark was clearly demonstrated by the successful offering of stock by the H. J. Heinz Company, makers of the "57" brand foods, in the face of a severely declining market in the Fall of 1946. The company had previously been a closely controlled enterprise for many years but when the need for funds arose the company invited the general investment public to participate.

Another argument in favor of a good advertising program is the fact that better-advertised enterprises have frequently acquired lesser-advertised enterprises and have repeatedly expanded their businesses through the simple device of the issue of their own stock alone. The surviving company has usually been a relatively heavy advertiser and has made its name or trade mark well known. These mergers through the issue of stock undoubtedly constitute a trend, which may be expected to continue in the years ahead. The tax factor will, without doubt, continue to serve as a strong incentive.

Certainly there can be little doubt that the financial power to attract other enterprises into the corporate fold is in substantial part due to the advertising investment. It seems apparent that the company which has entrenched its marketing position through the long-term heavy use of advertising will be likely to continue to occupy the commanding position in these acquisitions through stock issuance.

Obviously, the primary function of advertising is to sell merchandise at a profit. But while performing its indispensable primary function, its power flows over adjacent areas. For this reason the individual enterprise and the public receive the economic benefit of a multiplication factor from every advertising dollar.

A most significant example of this multiplication factor is the emergence in recent years of women as the majority stockholders in numerous leading American enterprises. Women are also the greatest purchasers of food, clothing and household products. Most advertising is directed to them. Naturally, as investors as well as consumers, they are almost certain to be partial to the well-advertised companies.

By Stanley Harold Morgan. *The Commercial and Financial Chronicle*, October 20, 1949, p. 13:3.

Postwar Savings Patterns

CONSUMER savings showed little change between 1946 and 1948, according to a recent analysis of postwar savings patterns by the Conference Board.

On the basis of newly-compiled data it was found that postwar fluctuations in personal savings, as reported by the Department of Commerce, arose primarily from differing amounts of income plowed back into unincorporated businesses and farms. As a result of these findings the Board points out that "care should be taken in employing personal savings to represent savings of consumers." (Personal savings, it should be noted, are defined as that part of disposable income not spent on consumption goods. Accordingly, savings include increases in individuals'—i.e. consumers'—holdings of cash, securities, insurance, and repayment of debt. Expenditures on residences are also considered savings. In addition, personal savings include the business savings of unincorporated businesses and farm enterprises. Business savings reflect additions to plant, equipment, and inventories, as well as increases in cash and security holdings and liquidation of debt.)

Personal savings, according to the analysis, fell from $12.9 billion in 1946 to $6.3 billion in 1947, subsequently rising to $13.7 billion in 1948. Plowed-back earnings of unincorporated business fell from $3.1 billion in 1946 to –$3.6 billion in 1947, and then rose to $4.8 billion in 1948.

More than half the changes in the amounts of unincorporated business savings

between 1946 and 1948 resulted from inventory changes, principally of farm enterprise. The decline of $2.2 billion in farm inventories in 1947 reflected the abnormal demand for foodstuffs from both domestic and foreign sources, and in a sense was involuntary, the report points out.

Fluctuations in personal drawings from unincorporated businesses are considered a major factor in the postwar movement of personal savings. Withdrawals rose from $15.7 billion in 1946 to $22.4 billion in 1947 and then declined to $18 billion in 1948. It would seem that in 1947 proprietors had been drawing on business reserves to finance personal expenditures, especially for automobiles, since purchases of cars rose 86 per cent from 1946 to 1947. Larger withdrawals for family living were made from farm enterprises in 1947, but not to the extent exhibited by owners of unincorporated businesses.

Public Puts Record $17 Billion on the Cuff in 1949

CONSUMER credit in the United States for 1949 will roar past $17 billion by the time the final figures are assembled.

Today the populace has gone into debt, dollarwise, almost twice as deep as in prewar days. The mountain of money owed to banks, department stores, small loan companies, credit unions, auto finance firms, pawn shops, jewelry stores and others with confidence in the citizenry is three times as great as when the war ended.

It's likely that money-lending to consumers will contract slightly in early 1950, and then go on up to new peaks. But most bankers and credit men say they are not worried. Reporters interviewing them in a dozen cities across the land hear almost unanimous testimony that Americans can put more billions on the cuff without weakening the economy—if production and employment hold high.

This dominant school of thought theorizes that consumer debt becomes dangerous only when people can't afford to meet their payments. They stack the present dollar volume of such borrowing beside the swollen dollar volume of personal income, and say it looks fine. In 1939 consumer credit was equal to more than 11 per cent of the personal income left after taxes. In mid-1949 it ran only a little more than 8 per cent of such "disposable" income.

This is an argument that doesn't entirely convince economists at the Federal Reserve Board in Washington. With the high level of income today, they argue, people should be able to pay without going into debt.

Credit men report that collections are holding up well. New York City banks, for instance, say instalment payment delinquencies are below a year ago. Some finance companies report a slight slowing of payments, but most are inclined to agree that so far it's nothing to be alarmed about.

—*The Wall Street Journal* 11/23/49

Continued Decline in Plant and Equipment Expenditures

THE decline in investment in new plant and equipment, which started in the spring of 1949, will continue through the first quarter of 1950, after allowance for seasonal influences, according to reports from non-agricultural business firms. Based on the latest quarterly survey by the Department of Commerce and the Securities and Exchange Commission, planned outlays are estimated at $3.9 billion during the first 3 months of 1950—14 per cent below actual expenditures in the corresponding months of 1949.

Comparable year-to-year declines in capital goods outlays were 6, 10, and 18 per cent respectively, in the last three quarters of 1949. When the final figures for the fourth quarter are available, the currently indicated decrease may be reduced, due to the accounting practice by many firms of concentrating additions to capital accounts in the last quarter. Thus the year-to-year decline in plant and equipment outlays in the early months of 1950 will probably be of approximately the same magnitude as that experienced in the late 1949. When declines in capital goods costs from their levels in 1948 and in the first quarter of 1949 are taken into account, the percentage declines in the physical volume of plant and equipment acquisitions are somewhat over two-thirds of those indicated on a current dollar basis.

—*Survey of Current Business* 12/49

INSURANCE

The Pressing Problem of Old-Age Security

LESS than half of the men and less than one out of 10 of the women of 65 years of age or over in the United States are at work. A man of 65 years of age may expect to live on an average of about 12 years longer—a woman, nearly 14 years. How are people going to support themselves for 12 or 14 years without working? This is plainly one of the biggest economic problems in the United States.

Let us look, therefore, at the four principal ways which are now used to provide retired workers with incomes and see whether any of them offers a solution for the problem.

1. *Employer-Initiated Plans.* Pension plans initiated by private employers have four major deficiencies, though they may do much good in the plants where they operate. First, they will never give adequate coverage. They do not apply to self-employed persons, of whom there are about 11 million in the United States. They are expensive, and only the more prosperous companies can afford to adopt them. Moreover, they are limited to certain types of employees—usually those with long service. The present 9,000 employer-initiated plans cover a little more than one-third of the employees of the firms which have the plans.

A second major shortcoming of employer-initiated pension schemes is that they may be abandoned at the will of the employer, leaving the employee without protection.

A third major defect is that they restrict the movement of workers—a man who leaves one employer to work for another does not ordinarily carry his pension rights with him.

A fourth major defect is the handicap they put on older workers in finding employment.

2. *Union-Negotiated Plans.* Pension plans negotiated by unions with employers may be less easily abandoned than an employer-initiated plan and they may cover a larger proportion of the employees, but they suffer from the same four major defects as do employer-initiated plans.

A special drawback of many union-negotiated pension plans is their financial unsoundness. Many of these plans make no provision for meeting the huge accrued liability with which the plans start. In many cases the cost of the pensions in a decade or so will be so large that the unions will have to consent to a reduction in the pensions in order to gain wage increases. Consequently, the so-called "security" offered by many union-negotiated pension plans is illusory.

3. *Old-Age Assistance.* The old-age assistance program of the Federal Government is the largest single source of income to retired persons. About 2.6 million are drawing old-age assistance, and total old-age assistance payments are roughly twice as large as all the pension payments made under the federal old-age pension scheme.

The old-age assistance program is open to two major objections. First, it is demoralizing for people to have to accept charity after a lifetime of work. Second, the fact that payments are based upon a means test makes the plan difficult to administer. Need is difficult to define, and this creates the danger of political favoritism. The danger is aggravated by the fact that payments are made out of general revenue and that most of the states, which administer the scheme, are

paying out more federal money than state money.

4. *Old-Age Insurance.* The most satisfactory arrangement for providing income for retired persons is the federal old-age insurance plan. It avoids the principal weaknesses of the other three schemes.

However, while the federal old-age insurance scheme is basically sound, it has three serious defects. First, the coverage is inadequate because the plan does not cover certain important types of workers, such as domestic servants, employees of non-profit institutions, farm employees and the self-employed. All in all, it covers about three out of five jobs. Second, the eligibility requirements are too strict—it takes too long for workers to acquire insured status. As a result, only about one out of five persons of 65 years of age or more is drawing pension benefits or has insured status under the plan. Third, the benefit payments are too low. The average payment for single workers is about $26 a month and for a worker with one dependent, about $40 a month.

The House of Representatives on Oct. 5, 1949, passed a bill, H.R. 6,000, which would make substantial improvements in the old-age insurance scheme. The bill would extend the coverage of the Act to include nearly one million out of three million domestic service employees, about 200,000 farm laborers, and about 4.5 million urban self-employed. It would extend partial protection, and possibly complete protection, to about 600,000 employees of non-profit institutions.

By voluntary agreement between state governments and the Federal Government, about 3.8 million employees of state and local governments might be covered. The bill would liberalize the eligibility requirements so that newly covered employees would become insured more quickly. Finally, it would raise benefit payments about 70 per cent to an average of between $50 and $60 a month.

The provisions of this bill, though a long step in advance, fall short of the recommendations of the Advisory Council on Social Security appointed some two years ago by the Finance Committee of the Senate. This body consisted of 17 members—six business men, two representatives of organized labor, four persons from the public service, and five persons from university work and scientific research. The Council was unanimous in recommending that coverage of the Old-Age and Survivors' Insurance be made virtually universal. The Council was also unanimous in recommending that eligibility requirements be changed so as to permit workers to qualify more promptly for pensions. In addition, the Council recommended increases in benefits which would raise the average benefit of a retired worker without dependents from $26 a month to $55 and of a worker with a wife from $40 to $85 a month. Surely it is not unreasonable that the pension of a man with a wife to support should be at least half of his earnings before retirement. In the case of a man who had been earning $300 a month throughout his working life, the recommendations of the Advisory Council would result in a monthly pension of $106.87—a little more than one-third of his monthly earnings.

The federal old-age pension plan—if its coverage were extended to nearly all of the 25 million uncovered jobs and if the average benefits were substantially raised—would provide the country with an adequate plan of old-age security. Nevertheless, some employers and some unions would wish to establish supplementary plans. It would then be the government's obligation to see that supplementary plans really provide the security which they promise, that they do not tie a worker to a given employer, and that they do not encourage employers to discriminate against older workers.

This can be done by requiring that the plans meet certain standards in order for employer contributions to be a deductible expense under the corporate income tax law. These standards should require that the plan be properly underwritten and that the employees who leave the service of an employer take their pension rights with them. In addition, in order to avoid encouraging noncontributory plans, the

Federal Government should permit the contributions of employees to pension plans to be a deductible expenditure under the personal income tax—at least if the employee's contribution is matched by one from his employer.

Are these schemes likely to undermine thrift, initiative, self-reliance, and the spirit of independence?

The cost of an old-age pension plan paying benefits moderately more liberal than those included in the bill passed by the House or recommended by the Advisory Council on Social Security may be put roughly at 8 per cent of payrolls. In the past, output per man-hour in the United States has increased about 2 per cent a year. If it continues to grow at the rate of 2 per cent a year, it will increase by over 80 per cent in the next 30 years.

Hence, the total cost of a fairly adequate old-age security program would be about one-tenth the increase in production during the next generation, assuming that output per man-hour grows no faster than in the past. The one thing that must be avoided, in order to keep the cost of old-age security within moderate limits, is a further drop in the usual age of retirement. Universal retirement at 65, depriving the community of nearly $11 billion of product a year, would be 10 times as costly as the present old-age pension program is today.

The danger that a system of old-age security will undermine thrift is remote. The usual method by which men have provided for their old age has never been thrift—it has been by having plenty of children and expecting the children to help the parents. Certainly pensions which pay 50 per cent more or less than average earnings leave much room for thrift. Furthermore, no one need fear that the incentives to practice thrift are about to disappear—there are many good things which the ordinary person can acquire only by practicing thrift quite rigorously. Any wage-earner who buys a home at present prices will have a good opportunity to be thrifty for years to come.

Nor is the old-age security likely to undermine initiative, self-reliance and independence — it is likely to strengthen these qualities. The reason is obvious. The worker, small-business man or high executive, who has a minimum of protection for his old age is likely to be willing to take some economic chances which he would not otherwise dare take. The extension of old-age security to small-business men may be particularly useful in making them feel better able to take risks.

By SUMNER H. SLICHTER. *The New York Times Magazine*, October 16, 1949, p. 9:4.

Do's and Don'ts in Pension Planning

THERE are several do's and don't's that employers should consider in connection with current union demands for pension plans.

The first thing to do is to make sure that the plan is set up on an actuarially sound basis, whether it is a trusteed fund or an insured plan. The first don't is don't promise benefits higher than can be financed on a sound basis.

The second don't is don't look to government for too much. Otherwise we will be getting what looks like a temporary advantage at the expense of a deepening trend toward the welfare state, statism, socialism, or whatever you care to call it.

In the Bethlehem type of formula the employer is contributing entirely at his expense the difference between the benefits provided under Social Security and $100 per month, for 25-year service employees reaching age 65.

Ford did something along the same lines. It is quite natural, of course for employers to try to push through Social Security retirement benefits that will absorb all or as much as possible of the $100 per month benefit, thereby decreas-

ing the amount that the employer would have to furnish. This tendency is strengthened by the fact that Social Security benefits are provided through joint and equal contributions of employees and employers, plus the likelihood of a general tax subsidy to make up the deficits not provided through such joint contributions.

But the problem is that these increased Social Security benefits have to be paid for. As matters stand now we are operating under an unbalanced budget and deficit financing. Increased Social Security benefits would accelerate this trend. So we find the strange anomaly that employers who ordinarily would champion a balanced budget are now arguing for a feature that calls for a further unbalancing of the budget.

Employers should strive for the three layers of benefits—the first layer to be provided by the government, but held down to the subsistence level only; the second layer to be provided through supplementary benefits via employee benefit plans; and the third layer to be produced through the private thrift of all our citizens. It is a three-legged stool, and all three legs must be kept under the stool if it is to stand.

Another anomaly of the situation is that unions—who have been decrying bigness in business—and the Federal Government, are both pushing smaller companies more and more toward the wall. If unions and government force all employers to provide the same type of employee benefits, whether they can afford it or not, then the marginal and smaller companies will find themselves being forced into mergers or liquidations. The end result of this is that the big will get bigger, and this cannot fail to affect our free enterprise economy.

In the early days of pension designing there was a tendency to give all employees a flat benefit, such as $50 a month. We now see a reversion to that trend whereby every employee appears to be expecting a flat benefit. Fortunately, however, both in the Ford and Bethlehem Steel cases there were minimum requirements for the full pensions—namely, 30 years of service in the case of Ford and 25 years in the case of Bethlehem. Pensions of employees with less service were prorated downward. This is as it should be. However, in the Ford cases there was no opportunity to extend the same type of formula all the way up and down the organization. The Bethlehem plan, however, provided a 1 per cent pension, times years of service, but with the minimum of $100 a month for 25 years of service. This type of formula is to be preferred.

This brings us to the next don't: Employers should not have two plans—one for union employees and the other for non-union employees. If they do, there will be a constant jockeying back and forth and comparison of one with the other. We saw this in the case of the steel companies when the unions argued that it was not fair to give executives non-contributory pensions in large amounts whereas union members were asked to make contributions. On this issue the union was correct because employers should treat all employees proportionately alike, and if any employees are asked to contribute, then all employees including union, non-union and executives should likewise contribute.

If the benefit provisions are proportionately alike—if, for example, the plan for non-union employees is the more generous plan—the union will lose no time in publicizing the inequity. Conversely, if the non-union employees' pensions are relatively lower, the union would use this as a strong argument for further organization. Thus the employer who has different types of plans for union and non-union employees will always be in hot water.

It should be noted that the pension under the Bethlehem type of plan is based on an average of the 10 final years of pay. This in effect ties benefits to future wage levels and inflationary trends. Thus the employer seems to be signing a blank check, in that he does not know from year to year what the actual benefits under the plan are going to be and thus what his yearly costs may total. Unfortunately this is the kind of situation in

which someone must hold the bag. If pensions are based on the actual average pay throughout the years of membership under the plan, then the employee holds the bag if inflation hits him at the end and his pension is not related to his cost of living at the time of retirement. On the other hand, the employer must hold the bag if the pension is to be based on final pay. This is one of the hard choices which an employer must come to grips with in setting up a plan.

From an address by Meyer M. Goldstein at a panel discussion at New York University.

The Insurance Buyer Speaks Up

THE insurance buyer expects more of his agent than mere delivery service—he could arrange that within his own organization. The buyer retains the services of the agent to facilitate negotiations with the insurance company, to advise him on his insurance program, to obtain the insurance coverage which properly meets his company's needs, to keep him abreast of insurance legislation which may affect him. These are but a few of the duties of the insurance agent, once he has been appointed the buyer's purchasing agent. Let's get down to specific cases starting with the original solicitation.

Before an agent calls on a buyer, he should do a little pre-approach work. Social drinking, golf and pressure by acquaintance do not come under this heading. Pre-approach work means learning about the buyer's business, products, methods of production, sale and distribution, his plant and equipment, his suppliers, the amount of business he does and with whom. Then the agent should set up a tentative program of insurance based upon the information he has collected. If the manufacturer sells his product to a large number of stores, his insurance needs are entirely different than if he sells semi-fabricated parts to large manufacturers for assembly. The agent should check his fire rates—a simple procedure—to see whether they approximate the rates of other manufacturers occupying similar plants. Then, when he calls on the buyer by appointment, he will have a specific reason for asking for his time.

The agent's proposal should be a general service plan. He should point out the advantage of having a completely coordinated insurance program, illustrating it by referring to the tentative plan he has prepared. At this moment he should not concentrate on making a sale—he is still acquiring information for his history file. If he is sufficiently convincing, he may ask the buyer for the opportunity to discuss various problems with his department heads to obtain information to make a complete analysis of his exposures, recommendations of an overall plan of insurance, and a quotation on its cost.

Let us assume he is successful and that his solicitation and program are accepted. He must then deliver the coverage prescribed. The rate must be adequate, but it is up to the agent to see that it is not excessive.

When a coverage is advisable, when an increase in rate is necessary, when the amount of insurance coverage is insufficient—the agent should stand up and say so. His client will admire him for it, if he can back up opinion with sound reason or fact. It's not necessary to talk down to him, however; he is mature even if he doesn't understand insurance terms. Also, he is still the customer.

When the agent does get an account, it's his job to handle it properly. He should not neglect it in order to get new business. He should learn all he can about it, analyze it and discuss it with his company men. When he calls on an established client, he should not drop in socially. The buyer expects him to have

a purpose, discuss it, get a decision, and leave. He doesn't welcome the agent who casually strolls in to "see what I can do for you today."

So far, we have not considered the buyer's loss problems. In many instances, a loss is a direct result of the agent's failure to act courageously. What is the agent's attitude when a buyer grumbles about the inspector's recommendations? Does he consider the full implications of the recommendation or does he quiet the inspector to ease the buyer's embarrassment? If he has the courage, he will sit down with both and hold a hearing of the reasons for and against the recommendation. And after he dismisses the inspector, he will give the buyer his opinion.

What does the buyer expect the agent to do when a loss occurs? He expects the agent to see that the claim report is properly executed, promptly filed and acted upon, by the insurance company. The agent's knowledge of the contract, insurance law and the common law means much to the buyer—otherwise he wouldn't employ the agent.

Many losses are settled to the detriment of the insured because neither he nor his agent knows how to present the claim properly. This does not imply that the adjusters are unfair. But if those who are familiar with the buyer's business cannot make out a proper claim, how can the adjuster be expected to do any better? The agent's knowledge of the procedure necessary to the establishment of valid claims cannot be limited to the physical possession of a supply of "proof of loss" forms to be filled out by the buyer. The agent should complete the form with him, checking his figures for accounting or other errors; he should know how to collect every cent to which the buyer is entitled. He should not rely on the goodhearted adjuster to show him how.

The buyer expects his insurance company to be sound financially. This is partly his agent's job in placing the coverage, but it is also the duty of the insurance company to remain that way. Sound methods of operation are necessary, but soundness of method cannot be inferred to mean reactionary methods. Sometimes there are good reasons why "it can't be done." When there are, the companies should not camouflage them.

The buyer can sum up his total requirements of his insurance company in a very few words. He wants it to be: strong financially, progressive in underwriting, competitive in cost, honest in public relations, and a leader—not a follower.

By RUSSELL B. GALLAGHER. *The Casualty & Surety Journal*, December, 1949, p. 15:7.

What About Pension Plans?

A RECENT *Mill & Factory* survey sought to determine the attitude of company executives toward pension plans and what coverage is offered through plans now in effect. Those queried represented all sizes and type of manufacturing concerns.

The following are among the chief findings:

1. Thirty-six per cent of the respondent companies have pension plans.
2. Of those which do have pension plans, 75 per cent cover all employees of the company; 18 per cent cover only company executives and office workers.
3. Of those whose plans do not cover production workers, 96 per cent do not think they will establish such coverage in the next 12 months.
4. Eighty-two per cent of those whose plans do not cover production workers report their production workers have not asked them to establish such plans.
5. Seventy-one per cent of those which do not have pension plans covering production workers say their employees have not asked for a "fourth round" wage increase.

Buyers' Market Developing in Fire Insurance

THE buyers' market has finally caught up with an elusive quarry—the fire insurance industry.

After two years of roaring business, demand for insurance protection on stores, factories, warehouses, theatres and their contents is falling off. Businessmen are carrying smaller inventories than this time last year. What they do have would cost less to replace.

Meantime, the fire companies are able to take on more business. They've managed to get hold of more capital by selling stock and by adding to their surplus from earnings. Now they must hustle for business again. Even while they tot up 1949 profits, the biggest they've ever pocketed, they're quietly revamping sales techniques to woo the reluctant client.

In the past couple of years the fire people could afford to be choosey. After heavy underwriting losses from 1944 through 1947, the fire companies bounced into the black last year with record underwriting profits. Stock companies, doing the bulk of the business in the U.S. had underwriting profits of $117 million, half again as big as in any previous year. This year they've more than doubled that.

In view of the companies' underwriting losses from 1944 to 1947, insurance commissions of the various states inched up rates after the war. Now the insurance men's big earnings may foreshadow a wave of rate cuts enforced by state regulatory agencies. Some have already taken place—in Pennsylvania, Florida, Tennessee, Kentucky and Georgia. Other states are expected to follow. The New York State Insurance Department, for instance, has launched a study of fire rates in the Empire State—a significant development inasmuch as 23 of the 50 biggest fire companies in the nation have headquarters in New York City.

—*The Wall Street Journal* 12/28/49

Survey of Employee Benefit Plans

VOLUNTARY efforts on the part of industry to protect workers against a variety of economic hazards have become increasingly widespread, according to a survey of 3,965 firms with 1,960,773 employees in six large metropolitan areas of the Midwest. The study, which was conducted by the Research Council for Economic Security, Chicago, indicates that the most common type of benefit plans are life insurance and prepaid hospitalization, covering over 70 per cent of the 1,960,773 employees included in the survey. Slightly over one-half of the companies with plans bear over 50 per cent of the costs.

In an intermediate position are pension-retirement, prepaid surgical benefits, and organized cash sickness plans, with coverages of approximately 40 to 60 per cent. Especially to be noted is the total protection against wage loss from non-occupational sickness and accidents. Such combined disability is available to 62.2 per cent of all employees covered in the survey.

—*The Midwest Survey of Employee Benefit Plans, Publication No. 62,* Research Council for Economic Security, Chicago, Illinois.

AMA SPRING INSURANCE CONFERENCE

The Spring Insurance Conference of the American Management Association will be held on Monday and Tuesday, May 22-23, at the Hotel Statler, New York City.

SURVEY OF BOOKS FOR EXECUTIVES

PATHS AND BY-PATHS IN INLAND MARINE INSURANCE. By Harold S. Daynard. *Insurance Advocate,* New York, 1949. 336 pages. $6.75.

*Reviewed by Henry Anderson**

Mr. Daynard in his Preface states: "Incomprehensible as it is to those of us who specialize in matters of Inland Marine Insurance, there exist no up-to-date texts or casebooks dealing with the legal problems inherent exclusively in this phase of insurance." *Paths and By-Paths in Inland Marine Insurance* adequately fills this void.

The book arises out of a series of bulletins originally issued to its members by the Inland Marine Claims Association and prepared by its Law Committee, of which Mr. Daynard, a member of the New York Bar, is Chairman. Mr. Daynard has now enlarged upon these bulletins, providing a generous amount of explanatory material.

Though his subject is a technical one, he has struck a nice balance. The book will be found interesting and readable by persons having an understanding of the principles of insurance, yet it is sufficiently technical to satisfy their desires to explore the subject in detail.

The author explains that the Inland Marine Insurance policy has many "invisible terms," not disclosed by the text of the policy. Various rules of common and statutory law limit or enlarge the benefits provided by the contract, and many of the words and phrases found in the policy have, as a result of litigation, been interpreted by the courts and have acquired special meanings. If the insured is not informed on this, he does not know the meaning of his contract. The book discusses in detail such words and phrases as "in transit," "all risk," "theft," "personal property," "insurable interest," "proximate cause." Thus the reader will emerge with a clear understanding of their significance and may only then realize how inadequate his knowledge of some of these terms has been.

Inasmuch as the source of this book is an association of claim adjusters, the reader gains a valuable insight into the mechanics of loss adjustments and the viewpoints of the adjuster. He learns that the adjuster, in order properly to serve his employer, must inquire into all the circumstances surrounding the loss, the extent of the coverage provided by the policies, and must further discharge his responsibility by disclosing any technicalities that may surround the loss and its adjustment. It is then up to the insurance company, not the adjuster, to decide the extent to which technicalities shall be waived.

There are excellent discussions of "Burden of Proof," "Bailment," "Duration of Risk," "Personal Property and Real Property," "Subrogation," and many other subjects common to Inland Marine and other forms of insurance. Any insurance man can profitably take this refresher course.

Throughout the book, Mr. Daynard cites cases to illustrate the subjects under discussion. He constantly warns, however, that these are not to be accepted as conclusive or as having general application.

Some of these cases were rather disturbing to this reviewer, for the adverse decisions in some instances must have been rude awakenings for the insured and the broker who sold him his insurance. While the companies writing Inland Marine Insurance have an excellent record of paying their losses with a minimum of technicality, the insured learns that he cannot rely on this, but must in the final analysis have an intelligent understanding of the contract into which he has entered. The writer knows of no better source of such information than Mr. Daynard's book.

Mr. Daynard also stresses the importance of the Bill of Lading. Payment under the Inland Marine policy is often contingent upon the terms and conditions of this important document. How many insurance men have read the fine print? A section of the book is devoted to the Bill of Lading, and the document is reproduced in full—and, equally important, in legible print.

This work is, we are told, to be regarded as Volume I, with a second volume to follow. There is every reason to believe that the insurance world, having sampled Mr. Daynard's present offering, will look forward with keen anticipation to a second volume—and indeed to any comprehensive detailed text book which Mr. Daynard may prepare.

This reviewer is under the impression that the insurance world knows far too little about Inland Marine Insurance, and that we are fortunate in having this excellent publication available to us.

* Manager, Insurance Department, Paramount Pictures, Inc., New York, N. Y.

BRIEFER BOOK NOTES

(Please order directly from publishers)

CONTROLLERSHIP IN MODERN MANAGEMENT. Edited by Thornton F Bradshaw and Charles C. Hull. Richard D. Irwin, Inc., Chicago, 1949. 241 pages. $4.00 This symposium, by 10 outstanding authorities on controllership, presents an over-all view of the more basic and pressing problems with which the controller deals. Chapter headings: Top Management Looks at Controllership; The Growth of the Controllership Function; Organized Cooperation Among Controllers in the United States; Controllership's Contribution to Executive Management; Problems of Controllership Organization; Selection and Training of Controllership Personnel; Education for Controllership; Human Reactions to Standards and Controls; Controllership and Public Relations.

MODERN PLASTICS ENCYCLOPEDIA: 1949. Plastics Catalogue Corporation, 122 East 42nd Street, New York 17, N. Y. 1,371 pages. $5.00. In this 1949 edition of the official yearbook of the plastics industries, significant applications of plastic materials have been emphasized by grouping them in a 200-page lead section, "Plastics in Use." The plastic products selected are described and illustrated in 27 separate articles, each covering a major industrial field. This year's Technical Data section includes an important new article, "Survey of the Properties of Plastics," abridged from a report prepared by Battelle Memorial Institute for the Office of the Chief of Ordnance. An indispensable reference work for every manufacturer and user of plastic materials.

BUSINESS INSURANCE. By Edwin H. White. Prentice-Hall, Inc., New York. 1949. 423 pages. $5.75. This study is divided into three closely parallel divisions: Proprietorships, Partnerships, and Closed Corporations. Each section deals first with the fundamental facts of each of these three business forms, then analyzes the various plans which have been created in an attempt to avoid liquidation upon the death of the owner. Finally, Mr. White describes a successful business-continuation plan for each. The book reviews over 135 cases in detail.

CRIME LOSS PREVENTION. Continental Casualty Company, 310 North Michigan Avenue, Chicago 4, Illinois, 1949. 34 pages. Gratis. Reviews the devices and procedures for safeguarding business assets, such as merchandise controls, proper handling of cash, checks, and payrolls; use of audits; use of various means of mechanical controls; and other means of guarding against losses from without and within.

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GENERAL

U. S. A. MEASURE OF A NATION: *A Graphic Presentation of America's Needs and Resources.* By Thomas R. Carskadon and Rudolf Modley Prepared by the Twentieth Century Fund, Inc. The Macmillan Company, 60 Fifth Avenue, New York, N. Y., 1949. 101 pages. $1.00.

LIBERTY: *A Path to Its Recovery.* By F. A Harper. The Foundation for Economic Education, Irvington-on-Hudson, N. Y., 1949 150 pages. $1.00.

MANAGEMENT OF AN ENTERPRISE. By C. Canby Balderston, *et al.* Prentice-Hall, Inc., New York, 1949. Second edition (revised). 494 pages. $6.65.

TOWARD SOCIAL ECONOMY. By Howard R. Bowen. Rinehart & Company, Inc., New York, 1948. 330 pages. $3.00.

A NATIONAL ECONOMIC POLICY FOR 1949. By Robert R. Nathan Associates, Inc., 3 Thomas Circle, Washington 5, D. C., 1949. 52 pages. $1.00.

PETROLEUM INDUSTRY RECORD—1919-1948. Obtainable from: J. A. McNally, American Petroleum Institute, 50 West 50th St., New York 20, N. Y. 30 pages. 50 cents.

MANAGEMENT THROUGH LEADERSHIP: *A course of lectures delivered in the Sheffield City Hall under the auspices of the Institute of Industrial Administration, 1948.* Institute of Industrial Administration, Sheffield Centre, England. 158 pages. 2*s.* 6*d.*

PLENTY OF PEOPLE: *The World's Population Pressures, Problems, and Policies, and How They Concern Us.* By Warren S. Thompson. The Ronald Press Company, New York, 1949. Revised edition. 281 pages. $3.50.

A NATIONAL SURVEY OF THE BREWING INDUSTRY: 1949. Research Company of America, Inc., 341 Madison Ave., New York, N. Y. 150 pages. $35.00, payable with order.

MANAGING AN AGENCY: *Principles and Practices of Agency Management.* Committee on Education and Training, Life Insurance Agency Management Association, Hartford 5, Conn., 1949. 158 pages. $3.25 (distribution restricted).

STRUCTURAL REFORMS IN THE ENTERPRISE. By Paul-Émile Bolté, *et al.* The Department of Industrial Relations of the Faculty of Social Sciences of Laval University, 2 University St., Québec, Canada, 1949. 210 pages. $1.00.

OFFICE MANAGEMENT

OFFICE MANAGEMENT FOR HEALTH WORKERS. By Frances King and Louis L. Feldman. The Commonwealth Fund, 41 East 57th St., New York 22, N. Y., 1949. 154 pages. $2.25.

OFFSET DUPLICATOR TECHNIQUES. By Richard Caruzzi. Published by Harold L. Taylor, Inc., 101 Park Avenue, New York 17, N. Y. 93 pages. $3.75.

MODERN BUSINESS ENGLISH. By A. C. Babenroth. Fourth Edition (revised). Prentice-Hall, Inc., New York, 1949. 641 pages. $5.65.

INDUSTRIAL RELATIONS

DICTIONARY OF OCCUPATIONAL TITLES—Vol. 1: *Definitions of Titles (Second Edition) 1949.* Division of Occupational Analysis, United States Employment Service. For sale by the Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C. 1,518 pages. $3.50.

COLLECTIVE BARGAINING PROVISIONS: *Union and Management Functions, Rights, and Responsibilities.* Bulletin No. 908-12, Bureau of Labor Statistics, U. S. Department of Labor, 1949. Available from the Superintendent of Documents, U. S. Government Printing Office, Washington, D. C. 54 pages. 20 cents.

INDUSTRIAL AND OCCUPATIONAL TRENDS IN NATIONAL EMPLOYMENT: *Research Report No. 11.* Industrial Research Department, University of Pennsylvania, 3440 Walnut Street, Philadelphia 4, Pa. 68 pages. $1.00.

JOBS FOR ALL: *A Primer of Theory.* Industrial Relations Center, University of Minnesota, Minneapolis, Minn., 1949. 29 pages. $1.00.

FINANCIAL MANAGEMENT

BASIC ACCOUNTING. By Ralph L. Boyd and Robert T. Dickey. Rinehart & Company, Inc., New York, 1949. 677 pages. $5.00.

COST ACCOUNTING. By James H. March. McGraw-Hill Book Company, Inc., New York, 1949. 544 pages. $5.00.

ACCOUNTING SYSTEMS: *Installation and Procedures.* By John J. Neuner and Ulrich J. Neuner. International Textbook Company, Scranton, Pa., 1949. 380 pages. $6.00.

HOW REAL ARE 1948 PROFITS? By Jules Backman. Proceedings of Conferences sponsored by The Economic and Business Foundation, New Wilmington, Pa., 1949. 26 pages.

CREDITS AND COLLECTIONS. By R. P. Ettinger and D. E. Golieb. Prentice-Hall, Inc., New York, 1949. Third edition (revised). 376 pages. $5.35.

CREDIT UNIONS: *Basic Cooperatives.* By Jerry Voorhis. The Cooperative League of the U. S. A., 343 S. Dearborn Street, Chicago, Ill., 1949. 44 pages. 35 cents.

INSURANCE

GROUP INSURANCE IN PENNSYLVANIA: *A Report on Hidden Wage Costs.* Pennsylvania Manufacturers' Association, Finance Building, Philadelphia, Pa. 36 pages.